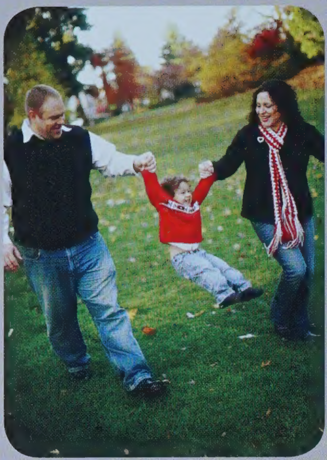
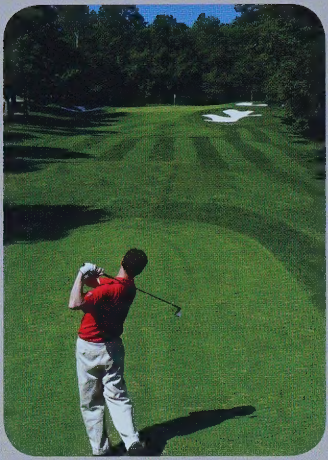
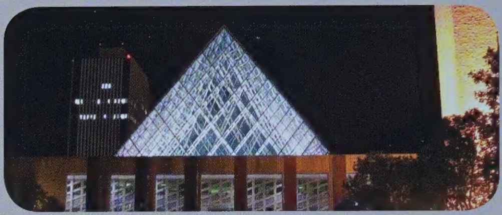
MELCOR
DEVELOPMENTS LTD.

2007 Annual Report

2008 a milestone year

85 years in the real estate business
40 years as a public company
37 years of dividend payments


Corporate Profile

Our mission at Melcor is to be Alberta's premier real estate development and management company. We achieve this by continually striving to meet the needs of our customers, shareholders, fellow employees and business associates.

Melcor Developments Ltd. ("The Company", "Melcor") is primarily engaged in the following activities:

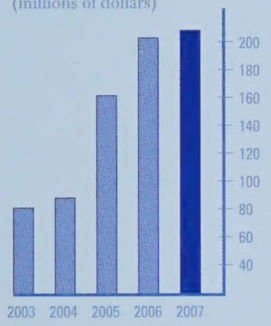
- the acquisition, planning and development of urban communities and the subsequent marketing and sale of single family, multiple family and commercial/industrial lots in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge, Red Deer and in the City of Kelowna, British Columbia and in the metropolitan area of Regina, Saskatchewan;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada; and
- the ownership interest in three championship golf courses in the Edmonton area plus one under construction in Kelowna, British Columbia.

Table of Contents

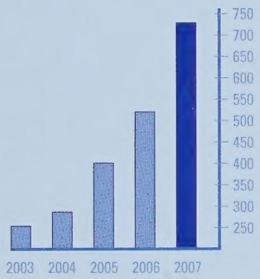
Financial Highlights

($)	2007	2006
Revenue	**207,024,000**	203,402,000
Earnings	**63,670,000**	57,771,000
Assets	**726,765,000**	522,927,000
Shareholder's equity	**286,484,000**	235,910,000
Per Common Share		
Basic earnings	**2.05**	1.87
Diluted earnings	**2.00**	1.83
Average share price	**24.21**	17.90
Dividends paid	**0.40**	0.30

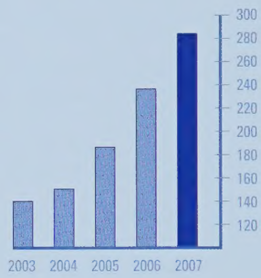
Revenue
(millions of dollars)



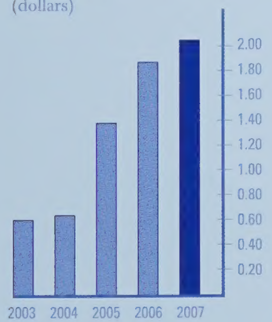
Assets
(millions of dollars)



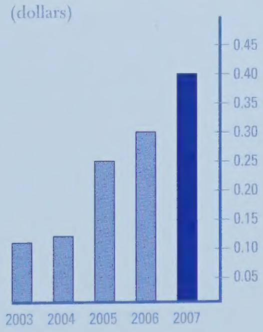
Shareholders' Equity
(millions of dollars)



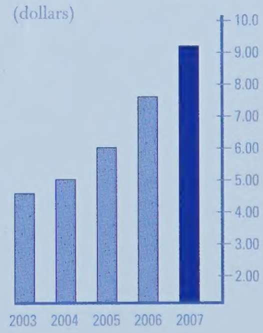
Earnings Per Share
(dollars)



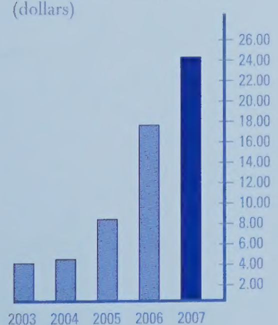
Dividends Per Share
(dollars)



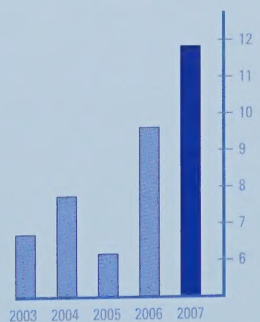
Book Value Per Share
(dollars)



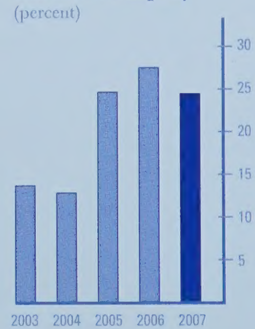
Average Share Price
(dollars)



Price Earnings Ratio



Return on Equity
(percent)



Message from the Executive Chairman

On behalf of the Board of Directors, I am pleased to report that 2007 was an excellent year for the company. Net earnings for the year were a record $63,670,000 or $2.05 per share compared to $57,771,000 or $1.87 per share in 2006.

The graphs on the financial highlights page indicate a history of continued growth and stellar record of performance that we at Melcor can all be proud of.

PLANNING FOR CONTINUED SUCCESS

The Board of Directors have the responsibility of ensuring that the company has a business plan and budget in place that will optimize value for shareholders. This process involves consultation with management to discuss relevant issues including the general business environment, plan assumption, appropriate levels of risk and review and approval of business goals and detailed financial budgets.

I can report that management was successful in exceeding most of its planned operational and financial objectives in 2007. The record revenue and earnings achieved this past year is due in part to increased margins achieved in Alberta's strong real estate market. The company's continued success is also because of actions of management and their ability to identify opportunities and execute the delivery of finished real estate products.

During 2007, the company's asset base was further enhanced with the acquisition of 2,135 acres of strategic lands for future development and 488,000 square feet of income producing properties through development and acquisition.

INCREASED DIVIDEND TO SHAREHOLDERS

Melcor is a real estate development company whose objective is to provide Shareholders with an increasing dividend commensurate with a reasonable return on their investment. Dividends totaling $.40 per share were declared in 2007 compared to $.30 per share in 2006. Shareholders have benefited from the company's success through increased dividends over the past many years.

SUPPORT TO THE COMMUNITY

In the year 2007, Melcor shared its success by providing financial contributions to many charitable organizations, both in communities where we operate and to national causes. The Board of Directors is proud of the company's financial commitment to these charitable organizations and also of the volunteer efforts of our employees in enhancing our community.

OUTLOOK FOR 2008

It is generally understood that markets in general do cycle and real estate markets are no exception. Over the past several years Alberta's real estate market has experienced rising prices and increasing volumes of sales. Mid way through 2007, there was indication that the residential real estate markets had peaked and leveled off. At time of this writing, it has become evident that Alberta's residential real estate market is in a moderate period of adjustment. Over the past few months, the sales volume of new homes, condominiums and serviced residential lots to builders have all declined significantly and some price discounting has taken place. The industrial, office and commercial real estate sectors are relatively healthy and still enjoying growth and success.

The reason for the decline of residential markets include buyer resistance to escalating prices, speculators selling product, oversupply of houses built on speculation and perhaps caution over turmoil in the financial markets. Whatever the reasons, we know the residential market is going through a period of adjustment and that lot sales will be adversely affected through at least the first half of the year. We believe that the fundamentals of the Alberta Market are still strong and that this adjustment is healthy for the market over the long term. It is very difficult to predict future results but we believe it is our duty to caution shareholders that 2008 residential lot sales will likely be lower than 2007. The company expects increased activity in its commercial office and retail developments which will compensate in part from the decline in residential sales.

The company has an excellent record of adapting to changing market conditions and we remain cautiously optimistic in our ability to adjust to changing markets and to produce satisfactory results for our shareholders.

ACKNOWLEDGEMENTS

The Directors recognize and express appreciation to management and staff for their continued outstanding contributions to the company's success and growth. I also thank Melcor's Board of Directors for their guidance, our customers and suppliers for their business and support, and our Shareholders for their continued confidence.

Sincerely,

Timothy C. Melton

Executive Chairman

Message from the President & Chief Executive Officer

I am very pleased to report on another record year for Melcor in 2007. While this year has proven to be a very volatile year for the real restate industry and for capital markets, Melcor's management and staff have performed extremely well in rapidly changing market conditions to ensure strong operating and financial results. Although the stock market performance of Melcor shares has experienced wide swings, we are confident of the strong underlying strength of Company assets, the experience of management, Melcor's financial resources and the fundamental strength of the Western Canadian provincial economies.

I am also pleased to remind shareholders that 2008 marks several significant milestones in the history of your company:

- the 85th anniversary of the founding company by L.T. Melton in 1923 as a small real estate brokerage office in the young City of Edmonton, Alberta;
- the 40th anniversary of the merger by S.L. Melton of several private Melton family controlled businesses with a public mortgage company in 1968 to create Melton Real Estate Ltd., a diverse real estate company which was first listed on the Vancouver Stock Exchange; and
- Melcor's history of paying dividends to its shareholders including:
    - o Paying dividends in 37 of the past 40 years;
    - o Paying dividends in the past 20 consecutively years; and
    - o Increasing the amount of dividends paid in each of the past 12 consecutive years.

The Melcor organization and Melton family have experienced numerous periods of market volatility over 85 years and are committed to ensuring the long term stability and success of the Company. Melton family ownership and direction over 85 years have been instrumental in the Company's success over 4 generations.

Melcor remains "grounded from its history, prudently managing in the present, but focused on the future". Along with record financial results in 2007, the Company has also continued to build a solid foundation for the future.

- At the April 2007 AGM, shareholders elected two new board members to the Company, approved a new share class and approved a new Employee Share Plan.
- During the year, the Company completed a record number of land and property acquisitions encompassing 2,135 acres of land and 488,000 sq. ft of retail and office properties. The company also built and transferred 21,000 sq. ft of retail space as well as substantially completing Crowfoot West Business Centre encompassing 115,000 sq. ft. of office/retail space. The Company entered into five new joint ventures and also made significant acquisitions in Regina, Lethbridge, Edmonton and the Red Deer region.
- During 2007, bank operating lines, vendor financing of land acquisitions and mortgage financing of properties were expanded to meet Melcor's growth in assets.
- At year end 2007, 14 Melcor staff received service awards of 5 years or greater totaling 160 years of service (including Vice Presidents Peter Daly at 35 years and Brett Halford at 30 years). Tim Melton was inducted into the Junior Achievement Business Hall of Fame.

The past year's results were aided by record operating margins in our Community Development Division which offset fewer total unit sales. 2008 is expected to be an adjustment year for real estate markets while demand and supply, pricing and margins of residential land products rebalance to sustainable levels. While real estate markets in Western Canada are expected to stay strong for several years, it appears that affordability and lower net migration will dampen the record real estate growth levels that have been experienced over the past few years.

Sincerely,

Ralph Young

Ralph B. Young

President and Chief Executive Officer

Message from the Vice-President, Finance & Chief Financial Officer

Fiscal 2007 was Melcor's best year in the history of the Company in terms of revenue, earnings, asset growth and dividends paid. During 2007, the shares of the Company reached a new high of $30.47 in April before falling back as a result of general market declines and due to uncertainty related to the housing sub-prime mortgage crisis in the United States. While that continues to cast a shadow over the markets in general, we believe that the basic fundamentals (being low interest rates, strong employment in Alberta, in-migration into Alberta, business friendly government) will continue to support a healthy real estate industry.

The Performance Chart on page 31 of this annual report illustrates Melcor's five-year cumulative total shareholder return, assuming an initial investment of $100 with all dividends reinvested versus the return on the TSX 300 Composite Index and the TSX Capped Real Estate Index. Over the past 5 years, the investment in Melcor has grown to $803 compared to the S&P / TSX Composite Index growth of $232 and the TSX Capped Real Estate Index growth of $192.

The Company continues to have a strong relationship with its major lender and it endeavors to nurture relationships with other lenders. At December 31, 2007, our debt to equity ratio was 1.54 to 1 compared to 1.22 to 1 in the prior year. This is below the Company's acceptable debt to equity level of 2.0 to 1 which is conservative as it is based on historical cost versus the fair value of the Company's assets. The Company's ability to service its debt continues to be very strong. The Company required additional capacity to finance the increased levels of activity that has occurred in the past 3 years and successfully increased its line of credit limits in 2007 with its major lender. We will continue to explore various options to improve the overall leverage of the Company and work with our major lender to ensure we have adequate financing available.

Assets grew by almost 40% and shareholder equity grew by 22.7%. Even with this growth, both return on equity and return on assets (see performance measures at the back of the annual report) were above their respective five year averages. Debt (bank operating line plus land inventory and investment property loans) has grown by $135 million during the year. The bank operating loan primarily uses agreements receivable and land under development as security and at the year end, the leverage was about 60% of the carrying value of the assets financed. Debt on land held for future development grew by $34 million while land held for future development grew by $96 million. Debt on investment properties grew by $46 million while the assets grew by $56 million resulting in a leverage ratio of 80% at the year end.

Credit markets for long term fixed rate financing have changed considerably over the past year with lenders increasing their spreads significantly, decreasing the loan to value amounts and increasing the cap rate that they apply to the property value to amounts above what the current market would consider as appropriate. This will have some impact on the amount of borrowing that the company will achieve relative to borrowing practices over the past years. During the year, the Company was successful in raising $21.6 million from 3 variable rate project loans and $24.7 million from 5 fixed rate mortgages (excluding repayment of existing mortgages of $2.9 million). During 2008, we expect to raise capital from the financing activities on 7 properties in the amount of approximately $70 million (before repayment of existing financing as applicable) under reasonable market terms.

The Federal government enacted additional income tax rate reductions which take place over the next few years. The corporate income tax rate in 2000, for an Alberta company, was 44.62% and will fall to 25% in 2012. The Company has about $100 million in timing differences which has benefited from these enacted rate reductions. The benefit to the shareholders of these lower rates was $3 million or about $.10 per share in 2007.

The annual meeting will be held on April 11, 2008 at 11:00 am at the Hotel Fairmont Macdonald in Edmonton.

I would invite all shareholders and interested parties to review this annual report and related proxy materials and to contact me with any comments or questions regarding the information that is published herein.

Sincerely,

Michael Shabada

Michael D. Shabada, C.A.

Vice-President, Finance and Chief Financial Officer

Corporate Secretary

Board of Directors

(Left to Right)

Ross Grieve, *President & CEO, PCL Construction Group Inc.* - **Andy Melton**, *Partner, Avison Young Commercial Real Estate*
Bill Grace, *Corporate Director* - **Cathy Roozen**, *Director and Corporate Secretary, Cathton Holdings Ltd.*
Garry Holmes, *Corporate Director* - **Allan Scott**, *Corporate Director* - **Ralph Young**, *President & CEO, Melcor Developments Ltd.*
Tim Melton, *Executive Chairman, Melcor Developments Ltd.*

Senior Management Team

(Left to Right)

Jon Goor, *Corporate Controller* - **Peter Daly**, *Vice-President, Community Development Division*
Patrick Melton, *Leasing Manager, Investment Property Division* - **Darin Rayburn**, *Vice-President, Investment Property Division*
Ralph Young, *President & CEO* - **Brian Baker**, *Vice-President, Property Development Division*
Brett Halford, *Vice President, Administration* - **Tim Melton**, *Executive Chairman*
Michael Shabada, *Vice-President, Finance & CFO*
Karen Albarda, *Operations Controller (missing)*

MILESTONES 1923 - 2008

Grounded in the Past ~ Managing the Present ~ Focused on the Future

- 85 YEARS IN THE REAL ESTATE INDUSTRY
- 85 CONTINUOUS YEARS OF OWNERSHIP BY THE MELTON FAMILY
- 85 YEARS HEADQUARTERED IN EDMONTON, ALBERTA

1923
T. MELTON FOUNDS COMPANY

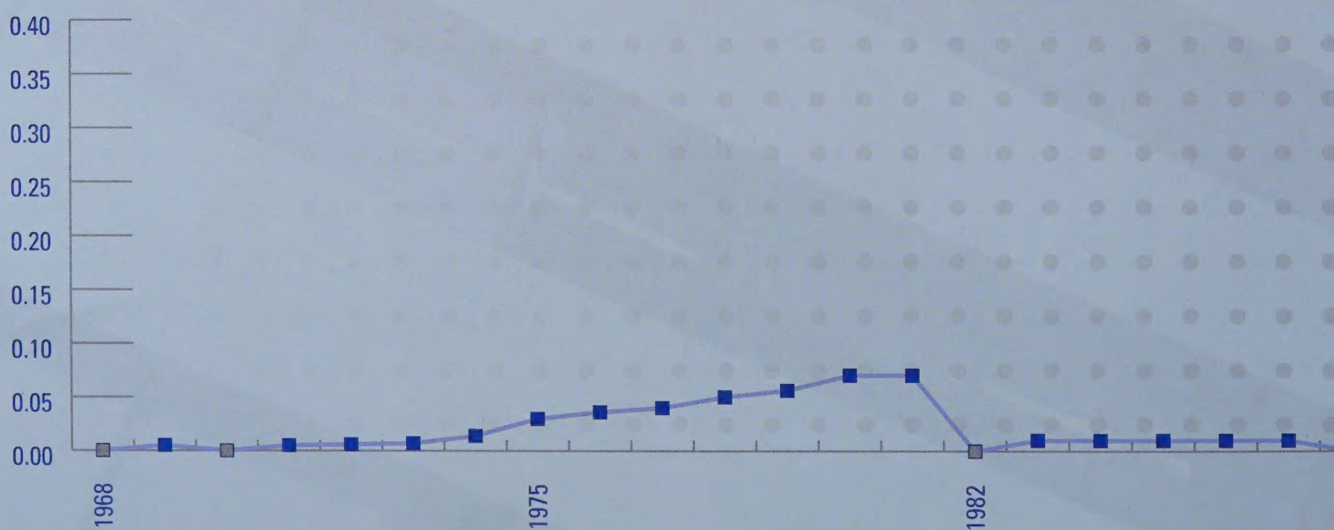
L.T. Melton Real Estate Ltd.
ORGANIZED FOR SERVICE SPECIALIZED FOR VALUE

MELTON REAL ESTATE LTD.

1923

1947
S.L. MELTON ASSUMES PRESIDENCY

Dividends Paid



1976
SALE OF BROKERAGE DIVISION

12 YEARS OF INCREASING DIVIDEND PAYMENTS

37 YEARS OF DIVIDEND PAYMENTS

19 YEARS OF CONTINUOUS DIVIDEND PAYMENTS

40 YEARS OF BEING LISTED ON THE TORONTO STOCK EXCHANGE

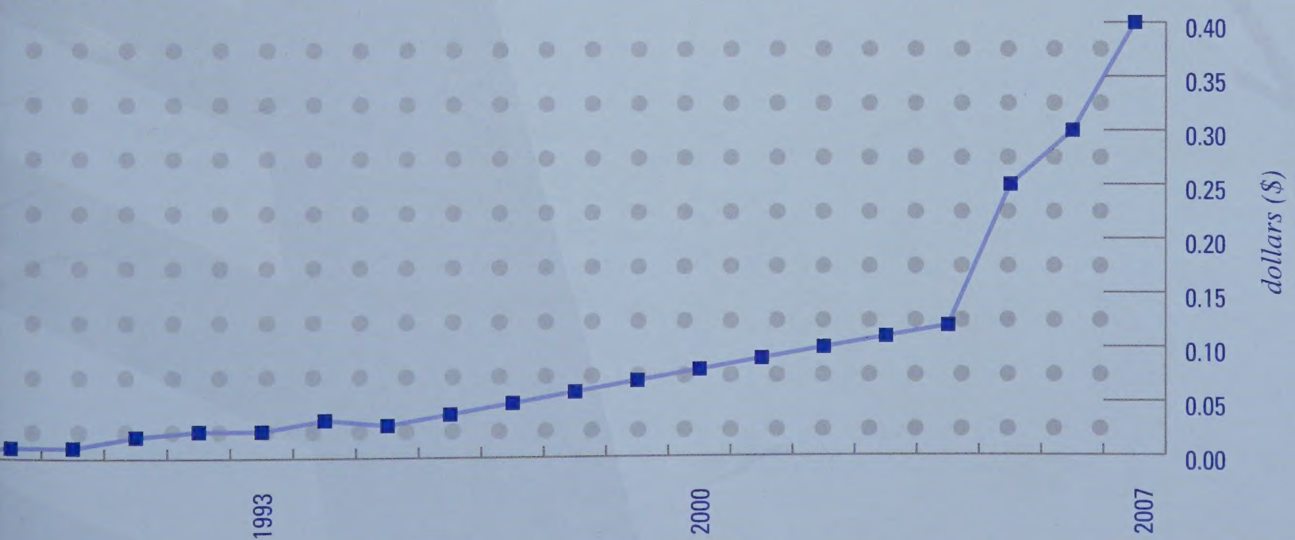
2006
SHARE SPLIT - 10 - FOR - 1

1968

2008

1975
T.C. MELTON ASSUMES PRESIDENCY

2007
- TRADING RANGE OF $15.34 PER SHARE TO $30.47 PER SHARE
- ASSETS REACH $725,000,000 (HISTORIC HIGH)
- EARNINGS PER SHARE $2.05 PER SHARE (HISTORIC HIGH)
- DIVIDENDS PER SHARE $.40 PER SHARE (HISTORIC HIGH)



Recent Projects

Sandalwood Community, Edmonton, Alberta

Lethbridge Centre, Lethbridge, Alberta

SOUTHWEST EDMONTON LANDS

CROWFOOT WEST BUSINESS CENTRE GRAND OPENING

Left to Right: Jim Clement, *Dominion Construction Company Inc.*, Patrick Melton, *Melcor Developments Ltd.*, Stephen Mahler, *Gibbs Gage Architects*, Brian Baker, *Melcor Developments Ltd.*, Alderman Gord Lowe, City of Calgary, Tim Melton, Melcor Developments Ltd.

Crowfoot West Business Centre, Calgary, Alberta

Magrath Community, Edmonton, Alberta

Management's Discussion and Analysis - Table of Contents

Management's Discussion And Analysis ("MD&A") February 22, 2008

The following discussion and analysis of the financial results and position of Melcor Developments Ltd. should be read in conjunction with the audited financial statements and notes to those statements for the years ending December 31, 2007 and 2006. The financial data provided has been prepared in accordance with Canadian Generally Accepted Accounting Principles. The Company's reporting currency is Canadian dollars. Certain statements in this discussion can be considered forward looking, and readers are cautioned that such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contained in these forward looking statements. These risks and uncertainties are described elsewhere in this discussion and in other regulatory filings.

Additional information including the Annual Information Form and Management Information Circular is available from SEDAR at www.sedar.com.

The balance sheet is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities which are expected to be settled within the immediately following year.

BASIC ACTIVITIES

Melcor Developments Ltd. ("Melcor" or "the Company"), which traces its history back to 1923, has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. It has survived and prospered for over 85 years, due to stable and committed ownership and loyal and dedicated staff who are focused on the real estate industry. Melcor primarily operates in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer. It also has assets in Kelowna (British Columbia), Regina (Saskatchewan) and in Arizona (USA). Its diversified operations include:

- the acquisition of raw land, which is held for future development until market conditions warrant the planning, servicing and marketing of urban communities which are then sold in the form of single family, multiple family and commercial / industrial lots;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada; and
- the ownership and management of championship golf courses in the Edmonton area.

MISSION STATEMENT

Melcor's mission is to be Alberta's premier real estate development and management Company by successfully meeting the needs of our:

- Shareholders, partners and lenders;
- Customers and suppliers;
- Selves and fellow employees; and
- Communities.

OVERALL PERFORMANCE

RESULTS OF OPERATIONS

Net earnings for the year were $63,670,000 compared to prior year earnings of $57,771,000. Basic earnings per share for 2007 was $2.05, a 10% increase over 2006 earnings per share of $1.87.

Included within fiscal 2006 results was a sale of an investment property that resulted in a gain of approximately $0.29 per share. Excluding that one time item, fiscal 2007 represents a 30% increase over 2006 results and the highest earnings per share in the Company's history - primarily due to the results of the Community Development Division. Current year results were positively impacted by above average markets in both land development and the leasing of investment properties.

	YEAR ENDED		THREE MONTHS ENDED	
Financial Highlights ($)	**Dec. 31, 2007**	Dec. 31, 2006	**Dec. 31, 2007**	Dec. 31, 2006
Revenue	**207,024,000**	203,402,000	**67,693,000**	85,891,000
Earnings	**63,670,000**	57,771,000	**25,263,000**	33,576,000
Assets	**726,765,000**	522,927,000	**726,765,000**	522,927,000
Shareholders' equity	**286,484,000**	235,910,000	**286,484,000**	235,910,000
PER SHARE				
Basic earnings	**2.05**	1.87	**0.82**	1.09
Diluted earnings	**2.00**	1.83	**0.79**	1.06
Book value	**9.19**	7.60	**9.19**	7.60

SUMMARY OF QUARTERLY RESULTS

Financial information for the prior eight fiscal quarters is as follows:

	REVENUES	NET EARNINGS	EARNINGS PER COMMON SHARE	
	($000s)	($000s)	Basic ($)	Diluted ($)
March 31, 2006	34,428	7,105	.23	.23
June 30, 2006	37,950	7,912	.26	.25
September 30, 2006	45,133	9,178	.29	.29
December 31, 2006	85,891	33,576	1.09	1.06
March 31, 2007	32,851	6,441	.21	.21
June 30, 2007	50,526	15,953	.51	.50
September 30, 2007	55,954	16,013	.51	.50
December 31, 2007	67,693	25,263	.82	.79

Earnings will fluctuate from one quarter to another due to another due to the timing of plan registrations and the cyclical nature of the real estate markets.

SELECTED ANNUAL INFORMATION

($000s)	2007	2006	2005	2004	2003
Revenue	**207,024**	203,402	161,500	88,339	80,035
Earnings	**63,670**	57,771	41,776	19,437	18,406
Assets	**726,765**	522,927	396,113	282,348	251,702
Liabilities	**440,281**	287,017	209,785	128,807	110,965
Equity	**286,484**	235,910	186,328	153,541	140,737
($)					
Basic earnings per share	**2.05**	1.87	1.38	0.63	0.60
Diluted earnings per share	**2.00**	1.83	1.35	0.62	0.59
Dividends per share	**0.40**	0.30	0.25	0.12	0.11

CORPORATE RISK

The cyclical nature of the Company's business along with 90% of its assets being located in Alberta, may subject Melcor to greater risks than Companies that are more geographically diversified.

Various factors which are not in management's control can impact the Company's business. These factors include:

- interest and inflation rates;
- general economic conditions in the regions in which the Company operates;
- population growth and migration;
- job creation and employment patterns;
- consumer confidence;
- pricing of input costs;
- competitor's strategies;
- government policies, regulations and taxation; and
- availability of financing for real estate assets.

COMMUNITY DEVELOPMENT OPERATIONS

The Community Development Division is responsible for the acquisition, planning, development and marketing of urban communities. Although the Division predominantly develops mixed-use residential communities, it also develops large-scale commercial and industrial centres in the Edmonton, Red Deer and Calgary regions. The majority of residential lots and parcels are sold to selected homebuilders that purchase sites through agreements for sale.

Strategic initiatives for 2008 – 2010 include:

- Maintain or increase market share in current markets;
- Pursue acquisitions in Canada which are complimentary to existing land holdings;
- Investigate opportunities for expansion in the south western USA; and
- Proceed with significant planning approvals in:
  a) Recently annexed lands in west Calgary;
  b) Sylvan Lake, Alberta land holdings; and
  c) Newly acquired lands in south west Edmonton.

OPERATING REVIEW

($000s)	2007	2006	2005	2004	2003
Revenue	**182,941**	183,581	149,246	75,359	72,556
Cost of sales	**(84,316)**	(103,653)	(79,723)	(43,830)	(42,259)
Net operating income (NOI)[1]	**98,625**	79,928	69,523	31,529	30,297
Interest revenue	**6,557**	4,109	1,449	1,545	2,130
Interest expense	**(726)**	(935)	(468)	(225)	(234)
	104,456	83,102	70,504	32,849	32,193
Administrative expenses	**(5,653)**	(4,472)	(3,938)	(3,260)	(3,198)
Divisional earnings	**98,803**	78,630	66,566	29,589	28,995

1 See "Non-GAAP Financial Measures" section

SELECTED FINANCIAL BENCHMARKS

($000s)	2007	2006	2005	2004	2003
ASSETS					
Agreements receivable	**140,625**	127,178	85,335	43,508	46,904
Land inventory	**384,974**	255,570	201,398	163,694	141,004
	525,599	382,748	286,733	207,202	187,908
DEBT					
Bank debt	**85,629**	29,599	16,026	10,167	1,642
Provision for land development costs	**51,103**	39,805	29,026	18,962	15,072
Debt on land inventory	**106,565**	72,440	50,478	40,311	35,885
	243,297	141,844	95,530	69,440	52,599
Net investment	**282,302**	240,904	191,203	137,762	135,309
NOI as % of revenue [2]	**53.9%**	43.5%	46.6%	41.8%	41.8%
Divisional earnings as % of net investment [2]	**37.8%**	36.4%	40.5%	21.7%	21.9%
% of assets financed [2]	**46.3%**	37.1%	33.3%	33.5%	28.0%

2 See "Calculations" in "Non-GAAP Financial Measures" section

SALES ACTIVITY & REGIONAL HIGHLIGHTS

a) Sales Activity

Total sales for the Division were $182,941,000 in 2007 versus $183,581,000 in the prior year. Overall, annual revenue was down slightly although net operating income as a % of revenue increased substantially to 53.9%. Due primarily to higher revenues per lot/acre sold, annual earnings for the Division increased by 26%. During the 2007 year, the Division sold 24% fewer lots and 69% fewer acres in the form of multi-family / commercial / industrial sites. In 2007, 34 subdivision plans were registered in 15 communities compared to 29 subdivision plans registered in 17 communities in the prior year.

	Twelve Months Ended December 31, 2007			Twelve Months Ended December 31, 2006		
Revenue Analysis ($)	**External Revenue (1)**	**Units/Acres @ 100% (2)**	**Gross Average Revenue Per Unit/Acre (3)**	External Revenue (1)	Units/Acres @ 100% (2)	Gross Average Revenue Per Unit/Acre (3)
Single family lots	**154,741,000**	**1,349**	**140,900**	138,643,000	1,775	97,400
Multiple family sites	**20,527,000**	**29.2**	**767,700**	19,282,000	42.0	512,000
Commercial sites	**390,000**	**1.4**	**481,500**	6,785,000	15.6	434,900
Industrial parcels	-	-	-	6,214,000	41.5	279,200
Non-strategic parcels	-	-	-	3,305,000	53.4	61,900
Other land	-	-	-	189,000	2.1	89,600
Management fees & other	**1,955,000**			4,173,000		
	177,613,000			178,591,000		

(1) External Revenue excludes inter-divisional sales. (See Segmented Information note to Consolidated Financial Statements).

(2) Units/Acres are not prorated for joint venture interests.

(3) Gross average revenue per unit/acre is based on the inclusion of the joint venture participant's interests in both revenue and in the unit/acres sold.

REGIONAL SALES ANALYSIS - Twelve months ended December 31, 2007

(including joint ventures at 100%)	Single Family Lots	Multiple Family (Acres)	Commercial (Acres)	Industrial (Acres)	Raw Land (Acres)
Edmonton	526	[illegible]	1.4	-	-
Calgary	270	8.2	-	-	-
Red Deer	396	[illegible]	-	-	-
Lethbridge	128	4.7	-	-	-
Kelowna	29	1.7	-	-	-
Airdrie	-	-	-	-	-
	1,349	[illegible]	1.4	-	-

REGIONAL SALES ANALYSIS - Twelve months ended December 31, 2006

(including joint ventures at 100%)	Single Family Lots	Multiple Family (Acres)	Commercial (Acres)	Industrial (Acres)	Raw Land (Acres)
Edmonton	[illegible]	23.2	15.4	-	25.5
Calgary	[illegible]	4.6	-	41.5	-
Red Deer	[illegible]	7.6	-	-	-
Lethbridge	[illegible]	3.9	-	-	-
Kelowna	15	2.7	-	-	-
Airdrie	-	-	-	-	30.0
	1,775	41.9	15.4	41.5	55.5

RESIDENTIAL LOT SALE HISTORY

(including joint ventures at 100%)	2007	2006	2005	2004	2003
Edmonton	526	[illegible]	[illegible]	[illegible]	[illegible]
Red Deer	396	[illegible]	[illegible]	[illegible]	[illegible]
Calgary	270	[illegible]	[illegible]	[illegible]	[illegible]
Lethbridge	128	[illegible]	[illegible]	[illegible]	[illegible]
Airdrie	-	-	-	13	4
Kelowna	29	15	-	-	-
	1,349	1,775	1,676	1,108	1,258

Although the 2008 year is expected to produce results above the historical 10 year average, a slowdown compared to 2007 is likely as excess inventory is absorbed in the overbuilt markets of Edmonton and Calgary. Results within individual regions, however, will vary depending on:

- localized market conditions
- the nature of existing land holdings
- timing of approvals; and
- absorption of excess housing and serviced land inventories

b) Edmonton Region

The Company has active developments in the Cities of Spruce Grove, Leduc and St. Albert as well as the south west and west end areas of Edmonton. In addition, the Company has commenced development in the south east area of Edmonton in the 2007 year. The Region showed a 38% decrease in lot sales. The primary reason for this decrease is the general softening of the housing markets in the second half of 2007.

The Division purchased 250 acres of land (net of joint venture interests) in south west Edmonton and 77 acres of land in Saint Albert. The Division expects to commence development of the south west Edmonton lands within two years. Development of the Saint Albert lands is not expected to commence for several years.

c) Calgary Region

The Company is currently developing projects in both the Town of Chestermere and the City of Airdrie, where most of the region's revenue has been realized in the past few years and is expected to continue over the near term.

During the year, the Company added 173 acres of land (net of joint venture interests) in the City of Airdrie. In addition, the Company acquired 318 acres of land in the MD of Rockyview, adjacent to the current municipal boundaries of the City of Airdrie.

At the beginning of the year, Melcor held 519 contiguous acres of land in the MD of Rockyview, adjacent to the western boundary of the City of Calgary. During the 2007 fiscal year, 392 acres of those lands were annexed into the City of Calgary. A small parcel is immediately developable and has the potential to generate sales in 2009.

d) Red Deer Region

The Company was primarily active in the Vanier Woods community in the south east part of the City of Red Deer. During the year, all remaining phases in the Vanier Woods community were developed, all subdivision plans were registered and all resulting lot inventory was sold. The Region had lot sales of 396 in 2007, down from 466 comparable sales in 2006.

In 2008, the Company expects to commence development of two new communities in the City of Red Deer and an industrial development in the County of Red Deer, immediately south of the current municipal boundaries of the City of Red Deer. It is expected that development of the Sylvan Lake lands will commence in 2009.

The Company added to its land holdings by purchasing a total of 152 acres in the County of Red Deer, adjacent to the City of Red Deer and 61 acres (net of joint venture interests) of land in the Town of Lacombe. In addition, the Company acquired 129 acres of land adjacent to the Town of Innisfail and 127 acres of land adjacent to the Town of Penhold. Both of these land acquisitions are pending annexation to their respective municipalities.

e) Lethbridge Region

The Company continues to be active in the north part of the City of Lethbridge in the Legacy Ridge community and in the south part of Lethbridge in a community called Paradise Canyon. The Company recorded 128 lot sales during the year, a decrease of 9% over the prior year.

During the year, the Company purchased 160 acres of land in west Lethbridge. These lands, within the boundaries of the City of Lethbridge, are two to three years from development.

f) Kelowna Region

The Company continued with development and sales in its Black Mountain residential community. During the 2007 year, 29 single family residential lots and 2 acres of multi-family residential land had been sold within the development. Development and sales in the Black Mountain residential community will take place throughout 2008.

g) Regina Region

In 2007, the Company acquired lands in Saskatchewan with the purchase of 686 acres of industrial lands in the Regional Municipality of Sherwood, immediately east of Regina. The City of Regina will be commencing discussions with the Regional Municipality of Sherwood in order to facilitate the annexation of those lands into the municipal boundaries of the City of Regina.

h) Summary

Housing markets in Alberta and British Columbia have softened in the second half of 2007, due primarily to an oversupply of multi-family and single family serviced lots. With population net migration rates remaining positive, it is expected that housing markets will stabilize by the second half of the 2008 year.

INVENTORY

DEVELOPED INVENTORY CARRY FORWARD SCHEDULE

RESIDENTIAL LOT SALE INVENTORY

(including joint ventures at 100%)	2007	2006	2005	2004	2003
At beginning of the year	**593**	612	779	677	613
New developments	**1,631**	1,756	1,509	1,210	1,322
Sales	**(1,349)**	(1,775)	(1,676)	(1,108)	(1,258)
	875	593	612	779	677

MULTI-FAMILY/COMMERCIAL/INDUSTRIAL SITE INVENTORY

(in acres - including joint ventures at 100%)	2007	2006	2005	2004	2003
At beginning of the year	**127**	160	92	80	79
New developments	**61**	76	122	49	60
External sales	**(31)**	(99)	(33)	(35)	(44)
Internal transfers	**(9)**	(10)	(21)	(2)	(15)
	148	127	160	92	80

UNDEVELOPED INVENTORY CARRY FORWARD SCHEDULE

LAND INVENTORY

(in acres)	**2007**	2006	2005	2004	2003
At beginning of the year	**7,092**	6,117	6,159	5,659	5,197
Purchases	**2,135**	1,305	993	919	820
Sales	**-**	(56)	(426)	(146)	-
Developed	**(362)**	(274)	(609)	(273)	(358)
	8,865	7,092	6,117	6,159	5,659
Average cost per acre ($)	**27,600**	22,800	20,200	17,900	16,400

The acquisition of land inventory is based upon management's anticipation of market demand and development potential, primarily within five years. The average cost per acre has increased in each of the past five years because the Company has been purchasing lands that are more expensive than the cost of lands which it owns. Land purchases during the last five years are as follows:

LAND PURCHASES

(in acres)	**2007**	2006	2005	2004	2003
Edmonton	**327**	379	353	465	261
Calgary	**491**	132	16	165	197
Red Deer	**471**	704	45	167	342
Lethbridge	**160**	85	203	122	-
Kelowna	**-**	5	376	-	20
Regina	**686**	-	-	-	-
	2,135	1,305	993	919	820
($000s)					
Land cost	**89,633**	55,349	29,774	22,749	26,066
Vendor financing	**(51,137)**	(29,872)	(13,035)	(12,395)	(13,596)
Net cash used for acquisitions	**38,496**	25,477	16,739	10,354	12,470

LAND HOLDINGS

Land Inventory by Region	**Developed Inventory**			**Undeveloped Inventory**
	Residential Lots	Residential Acres	Commercial / Industrial Acres	Acres
NORTHERN ALBERTA				
Edmonton	218	10	4	1,157
Spruce Grove	54	3	14	938
County of Parkland	-	-	-	571
Leduc	187	6	7	390
St. Albert	45	-	-	85
SOUTHERN ALBERTA				
Calgary	-	-	9	700
Airdrie	83	-	46	673
M.D. Rockyview	-	-	-	981
Chestermere	77	-	26	44
Lethbridge	183	-	-	586
CENTRAL ALBERTA				
Red Deer	-	-	-	197
County of Red Deer	-	-	-	1,149
Sylvan Lake	-	-	-	221
Lacombe	-	-	-	61
CENTRAL BRITISH COLUMBIA				
Kelowna	28	23	-	426
SASKATCHEWAN				
Regional Municipality of Sherwood	-	-	-	686
DECEMBER 31, 2007	**875**	**42**	**106**	**8,865**
DECEMBER 31, 2006	593	30	97	7,092

Undeveloped land inventory is an aggregate of raw land which, in some cases, may be several years from development, and unregistered projects and their related pre-development costs. Pre-development costs include the cost of regulatory approvals, planning, engineering and infrastructure servicing. The latter can be significant in instances where utilities or roadways are constructed over expanses of raw land in order to bring services or access to subdivisions that are being developed. Land inventory increased by $129,404,000 primarily due to land acquisitions of $89,633,000 and due to an increase of $46,871,000 in pre-development costs and developed land inventory costs.

FINANCING

The Division attempts to finance its land acquisition activities by obtaining vendor financing on a portion of the acquisition price. Please see the "Financial Instruments" section of this MD&A for further information.

The Division may also access a credit facility which, on a margined basis, allows for the borrowing of money using agreements receivable and developed land inventory as collateral. Please see the "Liquidity" section of this MD&A for further information.

RISK FACTORS

Residential lot sales are influenced by the demand for new housing which is impacted by interest rates, growth in employment, immigration, new family units and the size of these units. Our ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations which affect the planning, subdivision and use of land. The lengthy planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our developments may change.

The timing of revenue recognition is dependant upon the occurrence of plan registrations. Plan registrations are the result of an exacting process. Various interested parties and approval agencies are involved. While associated requirements are generally predictable in terms of certainty of resolution, they are less predictable in terms of timing.

The Company must manage its assets to ensure that it has adequate financial and operational cash flow to support the holding cost of its inventory and land holdings.

Management attempts to mitigate these risks by:

- Developing in the vicinity of major population and employment centres in Alberta where we have developed land for decades;
- Making the strategic acquisition of land for future development a priority;
- Marketing lots in various sizes and price ranges in all regions in which we carry on development programs;
- Monitoring market conditions by maintaining close contact with our customers, industry associations and forecasting agencies;
- Managing and participating in joint ventures;
- Contracting highly regarded professional consultants as required rather than having them on staff; and
- Practicing an environmental program to minimize risk on acquisitions and development.

PROPERTY DEVELOPMENT OPERATIONS

The Property Development Division acquires commercial sites from the Community Development Division at fair market value with the goal of creating additional value by developing the sites into revenue producing properties. Once completed, these assets are transferred at fair market value to the Investment Property Division, with a mandate to hold and manage them. The profit earned on transfer, is eliminated upon consolidation.

Strategic initiatives for 2008 - 2010 include:

- To implement the Business Plan for the Division and to meet the Corporate objectives of asset diversification, income growth and stability by constructing revenue producing developments primarily on land created through land development activities in Alberta;
- To commence construction and leasing on up to 25,000 square feet of retail space in Chestermere Station;
- To continue the development of Leduc Common in Leduc, Alberta;
- To finalize the construction and leasing of the Magrath office building in S.W. Edmonton; and
- To advance projects in Spruce Grove, Red Deer, Airdrie, Calgary and Lethbridge on lands currently transferable from the Community Development Division.

OPERATING REVIEW

($000s)	**2007**	2006	2005	2004	2003
Revenue	**8,112**	13,638	9,392	4,058	2,692
Cost of sales	**(6,165)**	(11,531)	(6,950)	(3,582)	(2,296)
Net operating income (NOI) [1]	**1,947**	2,107	2,442	476	396
Administrative expenses	**(570)**	(518)	(349)	(263)	(235)
Divisional earnings	**1,377**	1,589	2,093	213	161

1 See "Non-GAAP Financial Measures" section

DEVELOPMENT ACTIVITY

Leduc Common (Leduc, Alberta)

Leduc Common is a 56 acre power centre anchored by Wal-Mart, Canadian Tire and Rona. Construction of a 25,000 sq. ft. retail building is ongoing and will be substantially completed during the first quarter of 2008. In addition, construction has recently commenced on a 6,500 sq. ft. pad site that has been leased to a major Canadian bank. Construction of that pad site will be completed during the third quarter of 2008.

Chestermere Station (Chestermere, Alberta)

Chestermere Station is a strategically located retail centre which is shadow-anchored by Safeway. During the 2008 year the Division expects to construct three separate buildings, totaling 25,000 sq. ft. of retail space (including joint venture interest at 100%). These three buildings will be substantially completed during the fourth quarter of 2008 with rental revenues commencing in the first quarter of 2009.

Market at Magrath (south west Edmonton, Alberta)

The Market at Magrath is a mixed use office/retail centre which is shadow-anchored by Save On Foods. Within this development, the Division has recently commenced construction of a 67,500 sq. ft. three storey office/retail building. Construction on this building will be substantially completed during the third quarter of 2008 with rental income commencing shortly thereafter.

Crowfoot West Business Centre (north west Calgary, Alberta)

Construction of the Crowfoot West Business Centre, a 115,000 sq. ft. office/retail building in north west Calgary progressed with substantial building completion achieved during the fourth quarter of 2007. Tenant fixturing is ongoing and will continue until the first quarter of 2008. This property will commence earning rental income in the first quarter of 2008 and will be transferred to the Investment Property Division in the first quarter of 2008.

Westgrove Common (Spruce Grove, Alberta)

Westgrove Common is a retail centre which is shadow-anchored by Real Canadian Superstore and Home Depot. The Division has completed a 5,500 sq. ft. retail building and a 1,200 sq. ft. pad site in this development.

The Division has potential projects that will receive significant planning activity in 2008, namely:

- Airdrie Commercial Lands;
- north east Red Deer;
- Lewis Estates, Edmonton; and
- Lethbridge.

SALES ACTIVITY

Most of the sales activities for the Division are generated from the transfer of revenue producing assets to the Investment Property Division. The Division may also earn management fees when managing the development of properties within a joint venture or from the sale of a commercial site to an outside party.

During the year the Division completed a 2,800 sq. ft. pad site in Phase I of Leduc Common. In addition, the Division has also completed the construction of an additional 1,600 sq. ft. pad site in Phase 3 of the same development. Both sites were transferred to the Investment Property Division.

In Westgrove Common, the Division completed a 1,200 sq. ft. retail pad site during the year and transferred it to the Investment Property Division. This building is fully leased and will commence earning rental revenues in the first quarter of 2008.

At Chestermere Station, the Division completed construction of a multi-tenant Commercial Rental Unit ("CRU") building comprising 21,000 sq. ft. of retail space, a second multi-tenant CRU building which comprises 5,000 sq. ft. of retail space and a pad site that has been leased by a major Canadian Bank (including joint venture interest at 100%). All of these buildings were transferred to the Investment Property Division during the 2007 year.

FINANCING

The Division funds its operations through interim financing from financial institutions or from internal sources. Historically, the Division has been successful in obtaining very competitive long-term fixed rate financing terms by waiting until the asset has been built and substantially leased. Typically, the Company obtains financing on behalf of the Investment Property Division which attempts to achieve a 75% loan to value ratio based on the appraisal value of the assets. During the 2007 year, the Division entered into an interim financing arrangement to fund the construction of the Magrath office building. This project loan, with a major chartered bank, allows for monthly funding draws as construction costs are incurred. In addition, the Division continues to utilize the existing interim financing arrangement to fund the construction of the Crowfoot West Business Centre. As at December 31, 2007, there was a total of $26,416,000 of debt in the Division.

RISK FACTORS

The major risks include:

- Leasing risks (finding qualified tenants to lease the completed space);
- Construction risks (managing the cost and quality of developing the project); and
- Financing risks (ensuring the project has adequate financing resources).

Management attempts to mitigate these risks by:

- developing in the vicinity of major population and employment centres where the Company conducts business and owns similar assets;
- hiring professional consulting firms to aid in the planning and design of the project;
- using professional consultants and realtors to market the new projects;
- analysing market conditions and evaluating potential customers;
- obtaining adequate pre-leasing levels prior to construction;
- acquiring the land after the project is approved (i.e. sites are not inventoried);
- contracting with reputable construction companies that use fixed / target price contracts;
- constantly monitoring leasing activity, construction progress and project costs; and
- communicating with financial institutions regarding interim and take-out financing.

INVESTMENT PROPERTY OPERATIONS

The Investment Property Division has established itself as a key contributor to the continuing success of Melcor as one of Alberta's premier real estate development companies. The majority of the Division's assets are managed by the Company.

Strategic initiatives for 2008 – 2010 include:

- To implement the Business Plan for the Division to meet objectives of increasing the return on investment;
- To acquire new investment properties (i.e. Class "B" office buildings in Western Canada) where significant increased value can be created within a 5-year timeframe;
- To seek out un-tapped revenue opportunities in existing assets;
- To enhance the quality of the portfolio's assets by upgrading their appearance, functionality and desirability thereby increasing their rental outputs;
- To focus on client retention through continual customer contact and ongoing service evaluation;
- To obtain and maintain financing to ensure reasonable leverage of its assets;
- To update and execute detailed leasing strategies for each asset; and
- To maintain occupancy levels above 90% over the next 3 years.

OPERATING REVIEW

($000s)	**2007**	2006	2005	2004	2003
Rental revenue	**25,771**	19,765	15,749	12,088	10,235
Operating expenses	**(11,663)**	(9,260)	(7,607)	(6,144)	(5,676)
Net operating income (NOI) [1]	**14,108**	10,505	8,142	5,944	4,559
Interest income	**33**	36	22	11	17
Interest expense	**(4,699)**	(3,811)	(2,914)	(2,234)	(2,083)
Depreciation	**(2,455)**	(1,848)	(1,375)	(1,148)	(715)
Amortization of tenant leasing costs	**(1,705)**	(1,456)	(1,145)	(884)	(713)
Administrative expenses	**(758)**	(535)	(451)	(322)	(338)
Earnings from operations	**4,524**	2,891	2,279	1,367	727
Gain (loss) on sale of assets	**-**	11,108	-	-	1,559
Divisional earnings	**4,524**	13,999	2,279	1,367	2,286

1 See "Non-GAAP Financial Measures" section

The Investment Property Division experienced significant growth in 2007 in revenues, net operating income and earnings from operations. Overall, occupancy remained consistent at 93%. This was in line with the Division's 2007 goal of maintaining occupancy levels above 90%.

Net operating income (NOI) [1] from portfolio assets held by the Division from January 1, 2007 to December 31, 2007 is $10,582,000 which compares to same asset NOI during the same period in 2006 of $9,179,000 or an increase of $1,403,000. NOI growth from these assets is expected to continue over the next few years as leases continue to turn over at higher rental rates with some minor increase in occupancy rates.

While this increased occupancy and growth in operational performance is partly a result of acquisitions, the majority of the growth is a result of better performance from the existing portfolio.

SELECTED FINANCIAL BENCHMARKS

($000s)	**2007**	2006	2005	2004	2003
Asset book value	**130,938**	93,726	80,186	56,408	50,820
Financing	**(103,906)**	(75,685)	(64,314)	(34,354)	(35,573)
Net investment	**27,032**	18,041	15,872	22,054	15,247
EBITDA [1]	**11,645**	8,514	6,546	4,738	3,508
NOI as % of rental revenue [2]	**54.7%**	53.1%	51.7%	49.2%	44.5%
Earnings from operations as % of net investment [2]	**20.1%**	17.1%	12.0%	7.3%	4.9%
Divisional earnings as % of net investment [2]	**20.1%**	82.6%	12.0%	7.3%	15.3%
EBITDA as % of asset cost [2]	**10.3%**	9.7%	9.5%	8.8%	7.4%
% assets financed [2]	**79.4%**	80.8%	80.2%	60.9%	70.0%

1 See "Non-GAAP Financial Measures" section

2 See "Calculations" in "Non-GAAP Financial Measures" section

Asset book value comprises commercial properties, manufactured home property, tenant leasing costs and major repairs which are recoverable from tenants. In 2007, the Division financed six properties for gross proceeds of $28,687,500. The Division used five lenders and achieved a weighted average interest rate of 5.7%.

In addition, in 2007 the Division assumed two existing mortgages valued at $4,667,000. The weighted average interest rate for those mortgages was 6.1%.

PROPERTY HOLDINGS

Location/Name	Year Acquired	Units	Site Size (Square Feet)	% Leased 2007	% Leased 2006
OTHER REVENUE ASSETS					
Edmonton, Alberta					
104 Street Parking Lot #1	2001	28	N/A	100	100
104 Street Parking Lot #2	2002	28	N/A	100	100
Royal Bank Parkade	2005	330	N/A	100	100
Jasper Avenue Development Site	2005	N/A	25,000	-	-
Leduc Common (land leases)	2003/2004/2005	N/A	336,000	100	100
Edward Street Apartments	2006	11	N/A	100	100
Calgary, Alberta					
Crowfoot Circle (land lease)	1999	N/A	43,560	100	100
Chestermere Station (land lease)	2006	N/A	20,000	100	100
Kelowna, British Columbia					
Richter Street Parking Lot	2007	26	7,500	100	-
Regina, Saskatchewan					
Executive Terrace Parking Lot	2007	59	16,000	100	-
MANUFACTURED HOME COMMUNITY					
Calgary, Alberta					
Watergrove (*)	1995	308	N/A	100	100

(* Joint Venture)

Location/Name	Year Acquired	Rentable Square Feet Office	Retail	Total	% Leased 2007	2006
BUILDINGS						
Edmonton, Alberta						
Melton Building	1973	100,803	12,130	112,933	95	88
Corinthia Plaza	1975	-	23,143	23,143	96	100
Westcor Building	1978	59,024	12,811	71,835	100	100
Princeton Place	1999	50,110	8,448	58,558	94	100
Capilano Centre (*)	1999	68,508	28,578	97,086	92	92
100 Street Place	2000	41,221	3,074	44,295	93	96
Birks Building	2001	24,801	9,884	34,685	79	69
Westgate Business Centre	2001	74,649	-	74,649	97	100
Glentel Building	2002	15,968	-	15,968	100	100
Associated Centre	2002	54,272	19,205	73,477	76	93
Leduc Common	2003-2007	-	86,890	86,890	100	100
Sterling Business Centre	2003	67,909	-	67,909	100	100
Kingsway Business Centre	2004	33,432	-	33,432	100	100
Royal Bank Building	2005	118,493	17,191	135,684	95	82
Westgrove Common	2006/2007	-	6,712	6,712	100	100
Market at Magrath	2006	-	14,224	14,224	100	100
Calgary, Alberta						
Kensington Road Building	1980	17,867	5,984	23,851	100	100
Crowfoot Centre	2002	44,924	23,699	68,623	98	99
Chestermere Station (*)	2006/2007	-	56,740	56,740	88	100
Lethbridge, Alberta						
Lethbridge Centre (*)	2007	91,442	336,689	428,131	91	-
Regina, Saskatchewan						
Albert Street Building	1979	6,150	-	6,150	100	34
University Park Plaza	1981	-	41,206	41,206	95	93
Executive Terrace	2007	42,843	-	42,843	93	-
Towers Mall	2007	-	115,999	115,999	97	-
Market Mall	2007	-	42,632	42,632	79	-
Parliament Place	2007	24,441	-	24,441	100	-
Kelowna, British Columbia						
Kelowna Business Centre	2006	35,653	36,429	72,082	92	88
Richter Street	2007	28,978	-	28,978	91	-
2007 Total including JV Interest @ 100%		**1,001,488**	**901,668**	**1,903,156**	**93**	-
2007 Total Net of JV Interest		**921,513**	**690,665**	**1,612,178**	**93**	-
2006 Total including JV Interest @ 100%		814,284	373,996	1,188,280	-	93
2006 Total Net of JV Interest		779,780	344,440	1,124,220	-	93

PROPERTY TRANSACTIONS

The Division had the following additions in 2007:

- During the first quarter, the Division acquired a 42,800 sq. ft. office building in downtown Regina, Saskatchewan. This property also includes a 16,000 sq. ft. lot adjacent to the building that is currently in use as a parking lot;
- During the second quarter, the Division acquired a 29,000 sq. ft. office building in downtown Kelowna, British Columbia. This property also includes a 7,500 sq. ft. future development site near the building that is currently in use as a parking lot;
- In addition, the Division acquired two properties in the second quarter from the Property Development Division, a 2,800 sq. ft. pad site in Phase I of the Leduc Common development and a CRU building in Chestermere Station that totals 21,000 sq. ft. of retail space (including joint venture interest at 100%);
- During the third quarter, the Division acquired two retail centres on Albert Street in Regina, Saskatchewan. One property comprises 42,600 sq. ft. of retail space and the other property, anchored by a major national retailer, consists of 116,000 sq. ft. of retail space;
- In the third quarter, the Division also acquired two properties in Chestermere Station from the Property Development Division, a CRU building which comprises 5,000 sq. ft. of retail space and a 4,300 sq. ft. pad site (including joint venture interest at 100%);
- During the fourth quarter, the Division acquired a 24,400 sq. ft. office building in south Regina;
- During the fourth quarter, the Division also acquired a 50% interest in a 428,000 sq. ft. mixed retail/office property in the City of Lethbridge, Alberta, known as Lethbridge Centre. This 10.6 acre site is in the heart of downtown Lethbridge; and
- During the fourth quarter, the Division acquired one pad site in Leduc Common and another pad site in Westgrove Common from the Property Development Division. Rents for these sites will begin in the first quarter of 2008.

FINANCING

The Division normally finances its assets with fixed rate long-term mortgage financing. The advantages of this strategy include:

- Reduction of interest rate risk as mortgages are financed over fixed terms of five to fifteen years;
- Returns are increased due to leverage; and
- Cash flow from financing helps to fund asset acquisitions thus allowing the Division to expand its asset base without using cash from other Divisions.

Those assets where performance is below optimum levels needed to obtain market rates or desired leverage, are either left unencumbered or financed with short term, floating rates until such time as performance improves and satisfactory financing is attainable.

See the "Financial Instruments" section of this MD&A for further information.

RISK FACTORS

The two major risks affecting the Division are retaining existing tenants and attracting new tenants. The Division is subject to the market conditions in the geographic areas where it owns properties. As these market conditions change, the ability to achieve higher occupancy rates also changes. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Management attempts to mitigate these risks by:

- owning properties in the vicinity of major population and employment centres, (normally in areas where we also develop land for resale);
- diversifying the type of investment properties in the portfolio;
- managing and participating in joint ventures;
- purchasing properties that are below replacement value, which improves prospects for future appreciation in lease rates and property values;
- obtaining long-term, fixed-rate financing when the features of the specific property meet conditions that generate competitive financing terms;
- managing our buildings so as to have competitive operating costs; and
- maintaining adequate insurance coverage to protect the Division's income stream, assets and exposure to third party claims.

RECREATIONAL PROPERTY OPERATIONS

This Division owns and manages two 18-hole championship golf courses in the Edmonton region - The Links at Spruce Grove and Lewis Estates Golf Course (60% joint venture). In addition, the Division owns a 50% interest in the Jagare Ridge Golf Course in south west Edmonton and owns a golf course under construction in the Black Mountain region of Kelowna, British Columbia.

Strategic initiatives for 2008 - 2010 include:

- To enhance Divisional performance through revenue growth and potential acquisitions of golf course properties; and
- To complete construction of the Black Mountain golf course.

OPERATING REVIEW

($000s)	2007	2006	2005	2004	2003
Revenue	**4,324**	3,026	3,228	2,756	2,951
Operating costs	**(2,295)**	(1,708)	(1,466)	(1,434)	(1,416)
Net operating income (NOI) [1]	**2,029**	1,318	1,762	1,322	1,535
Interest revenue	**2**	-	-	-	-
Interest expense	**(301)**	(280)	(178)	(88)	(108)
Administrative expenses	**(1,143)**	(630)	(631)	(525)	(553)
Depreciation expense	**(703)**	(333)	(244)	(241)	(267)
Gain/(Loss) on sale of capital assets	**121**	14	(63)	-	19
Divisional earnings	**5**	89	646	468	626

1 See "Non-GAAP Financial Measures" section

SELECTED FINANCIAL BENCHMARKS

($000s)	2007	2006	2005	2004	2003
Asset cost	**18,336**	11,861	9,231	5,892	5,647
Accumulated depreciation	**(3,751)**	(3,336)	(3,168)	(3,047)	(2,806)
	14,585	8,525	6,063	2,845	2,841
Less debt related to golf courses	**(5,091)**	(4,790)	(5,117)	(1,602)	(1,762)
Net investment	**9,494**	3,735	946	1,243	1,079
EBITDA [1]	**1,007**	702	1,068	797	982
NOI as % of revenue [2]	**46.9%**	43.6%	54.6%	48.0%	52.0%
Divisional earnings as % of net investment [2]	**0.1%**	3.8%	59.0%	40.3%	63.3%
EBITDA as % of asset cost [2]	**6.7%**	6.7%	14.1%	13.8%	17.7%
% assets financed [2]	**34.9%**	56.2%	84.4%	56.3%	62.0%

1 See "Non-GAAP Financial Measures" section

2 See "Calculations" in "Non-GAAP Financial Measures" section

Revenue is higher due to the inclusion of the Company's 50% interest in the Jagare Ridge Golf Course, which was acquired before the commencement of the 2007 season. Nevertheless, earnings for the 2007 year were adversely affected by below average weather conditions throughout the operating season. The Division also has incurred expenses from the Black Mountain Golf Course which does not generate revenue at this time.

Base construction of the Black Mountain Golf Course in Kelowna is expected to be completed during the first half of the 2008 year. In addition, the Division expects to finalize the design of the Course Clubhouse and commence construction thereon during the 2008 year.

Weather permitting, the Company expects to show moderate growth to revenue and earnings for 2008.

OPERATIONAL ACTIVITY

The courses are maintained consistent with the adopted objectives of a recognized championship public golf course. This sustains a positive economic balance between the level of the course fees, the number of rounds attracted and the level of enjoyment experienced by our customers as it relates to course conditions. All courses have a reputation of consistently being in excellent condition overall.

EQUIPMENT / ASSETS

The Division purchases and maintains recognized brand name groundskeeping equipment, which allow grounds crews to perform a superior job. Golf carts are replaced every 6 to 8 years.

In 2007, the Division acquired a 50% ownership interest in the Jagare Ridge Golf Course in south west Edmonton. This picturesque 18 hole golf course was completed in 2002 and is located along the banks of Whitemud Creek Valley. A future residential community is planned for the lands adjacent to the golf course.

In addition, the Division continued development of its golf course located in the residential community of Black Mountain in Kelowna, British Columbia.

FINANCING

The Division's financing goals are similar to those of the Investment Property Division (i.e. to obtain long-term fixed rate financing).

Currently, the Lewis Estates Golf Course is financed with a variable rate mortgage and is part of a comprehensive financing arrangement which also includes a term loan respecting future development lands. During the 2007 year, the Division increased its existing Lewis Estates Golf Course variable rate mortgage by $1,017,000.

The Links at Spruce Grove was financed with a fixed rate mortgage that matures in July of 2010. There is currently no mortgage financing in place on the Jagare Ridge Golf Course. The development of the Black Mountain Golf Course is financed primarily by the Company's existing credit facility.

RISK FACTORS

The primary risk factor is to continue to attract golfers to play at the Division's golf courses. Golf course results are subject to weather, number of playing days, competition from other courses, the amount of disposable income available to customers to spend on recreational activities, popularity of the sport and the cost of providing desirable playing conditions.

Management attempts to mitigate these risks by:

- owning golf courses near high population areas;
- keeping green fees competitive, but sufficient to maintain a high standard of course conditions;
- servicing the corporate golf tournament business, which increases the number of sold out days and provides revenue on marginal weather days;
- building good practice facilities at the courses and by providing excellent professional golf instruction; and
- practicing efficient, courteous and professional customer relations to encourage patrons to return.

LIQUIDITY

Management believes that with the projected level of operations for 2008, our capital commitments and the availability of funds under the established credit facility, the Company will have sufficient capital to fund its operations and continue investing in land inventory and revenue producing assets.

The Company is relatively conservative as it relates to its use of debt to finance its operations. This is evidenced by the debt to equity ratio (total debt divided by total equity as per the balance sheet) over the past 5 years which is as follows:

	2007	2006	2005	2004	2003
	1.54 to 1	1.22 to 1	1.13 to 1	.84 to 1	.79 to 1

The Company has an ongoing requirement to finance its operations. The Company has a credit facility with a major chartered bank. Under the terms of this facility, the Company pledges specific agreements receivable, specific lot inventory and a general security agreement as collateral. This credit facility may be terminated by the bank upon one year's notice and may be modified to meet the Company's needs. A summary of the credit facility is as follows:

($000s)	2007	2006	2005	2004
Supportable credit limit	**155,900**	88,900	76,700	43,500
Credit limit approved	**109,770**	61,800	43,250	29,650
Credit used	**85,629**	29,599	16,026	10,167

In addition to the credit facility above, the Company can raise equity, capital and debt financing as discussed in the "Capital Resources" section of this MD&A.

CASH FLOWS

The Company received cash of $21,981,000 from operating activities which is an increase of $3,950,000 over the amount received in 2006. The primary use of funds was an increase of $13,447,000 in agreements receivable, the net change of $35,760,000 for development activities and $183,000 in other assets and liabilities. Earnings of $63,670,000 and non-cash items which were expensed in earnings of $7,822,000 were the main source of funds from operating activities. Cash from operating activities was decreased by $121,000 due to the net inclusion of non-cash gains on sale of investment properties and capital assets.

The Company used $91,044,000 in cash for investing activities which is an increase of $57,989,000 over the amount used in 2006. The primary use of cash was the purchase/development of investment properties of $52,510,000 (an increase of $28,231,000 over 2006 purchases) and the purchase of land inventory of $38,496,000 (an increase of $13,019,000 over 2006 purchases). These purchases were marginally offset by proceeds from the sales of investment properties of $179,000 (2006 - $16,775,000).

The Company received $67,965,000 from financing activities which is an increase of $50,398,000 over 2006 when the Company received $17,567,000 in financing activities. The primary source of funds was mortgage financing of $46,574,000 (2006 – $44,577,000) and the increase in bank operating loan of $56,030,000 (2006 - $13,573,000). The Company also raised $529,000 from the issuance of share capital resulting from the exercising of employee share options. The Company made debt repayments of $22,710,000 which is a decrease of $9,340,000 over the debt repayments made in 2006 and paid $12,458,000 in dividends (2006 - $9,299,000) which is an increase of $3,159,000 over the amount paid in 2006.

Contractual obligations include:

($000s)	Total	Payments Due by Period Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long term debt	**241,978**	69,869	46,356	25,987	99,766
Operating leases	**906**	151	293	258	204
Contractual commitments	**300**	300	-	-	-
Total contractual obligations	**243,184**	70,320	46,649	26,245	99,970

CAPITAL RESOURCES

EQUITY

The Company has issued stock options to its employees. As these options become vested, they can be exercised by the employee, thus raising share capital for the Company. If all outstanding options are exercised at their earliest date, the Company stands to raise $7,478,000 in share capital by 2011. See the "Outstanding Share Data" section in this MD&A for further information.

DEBT

The Company could raise additional financing from the following sources:

- Credit facility (see the "Liquidity" section of this MD&A for further information);
- Refinance existing investment property assets for greater mortgage proceeds (see the "Financial Instruments" section of this MD&A for further information);
- Place interim or take-out financing for properties under development within the Property Development Division; and
- Place new financing on unencumbered assets.

OFF BALANCE SHEET ARRANGEMENTS

LETTERS OF CREDIT

The Company has an ongoing requirement to provide letters of credit to municipalities as part of the subdivision plan registration process. These securities would provide a source of funds to the municipalities that would allow them to complete the construction of the subdivision should the Company not be able to. The amount of any particular letter of credit is reduced at various stages of construction. Once the municipality issues a certificate acknowledging completion of the project, the letter of credit is cancelled.

The Company records the estimated cost of completion, for all single family lots and parcels (i.e. multi family, commercial and industrial sites) sold as a liability in "Provision for land development costs" in the balance sheet. The amount of individual letters of credit will normally exceed the related liability recorded in the accounts due to the timing of the ongoing expenditures which are incurred as the project is being developed compared to the timing of reductions in the balance of the corresponding letter of credit.

The Company's letter of credit facility is part of the Company's overall credit facility that was negotiated with a major Canadian chartered bank. The Company's letter of credit balances over the past three years, net of joint venture interests are:

($000s)	**2007**	2006	2005
Total facility	**45,127**	37,300	29,031
Amount outstanding	**(33,116)**	(30,516)	(22,939)
Available for issue	**12,011**	6,784	6,092

JOINT VENTURE GUARANTEES

The Company has a history of conducting a significant portion of its business through joint ventures as a way of diversifying development and investment risk. Currently, Melcor is a participant and/or manager of 21 joint ventures. As manager, the Company has arranged appropriate credit facilities for all active joint ventures which margin pre-development work, agreements receivable and lot inventory to provide a line of credit facility to accommodate development activities. In some cases, the Company's guarantee for these facilities goes beyond the Company's proportionate share of the liability. The following table illustrates guarantees made by the Company related to joint venture agreements:

($000s)	**2007**	2006	2005
Net loan guarantees	**2,265**	6,169	11,264
Letter of credit guarantees	**5,536**	6,350	5,300
Amounts secured by joint venture agreements	**7,801**	12,519	16,564

To mitigate the possibility of financial loss, Melcor is diligent in its selection of joint venture participants. As well, Melcor has remedies available within the joint venture agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint venture participants.

JOINT VENTURE ACTIVITY

The Company uses the proportionate consolidation method to account for its joint ventures. The following table illustrates selected financial data related to joint ventures at 100% as well as the net portion relevant to Melcor.

JOINT VENTURE ACTIVITY AT 100%

($000s)	**2007**	2006	2005	2004	2003
Revenue	**93,173**	104,665	78,863	63,857	45,068
Earnings	**48,822**	31,945	24,640	21,588	16,171
Assets	**333,854**	225,677	202,569	161,254	109,310
Liabilities	**109,815**	110,881	108,508	84,659	49,724

MELCOR'S PORTION (30.0% - 75.0%)

($000s)	**2007**	2006	2005	2004	2003
Revenue	**50,489**	55,572	45,666	34,117	26,782
Earnings	**26,398**	17,157	14,266	11,133	8,947
Assets	**192,600**	120,963	108,036	85,600	57,862
Liabilities	**67,772**	56,045	57,849	44,968	26,130

The activities of the twenty one joint ventures are as follows:

- (2) Commercial Property;
- (1) Manufactured Home Community;
- (2) Active land development and golf course operations;
- (1) Active land development with commercial property development activities;
- (6) Active land development activities; and
- (9) Non-active land development with activities expected to commence in 2-4 years.

CRITICAL ACCOUNTING ESTIMATES

The Company's most significant estimates relate to measuring cost of sales in the Community Development Division which sells parcels of land prior to all costs being committed or known. These estimates are necessary to facilitate the reporting of earnings. The nature of the land development industry includes lengthy time frames to complete all municipal requirements.

When the Community Development Division obtains plan registration for a new phase of a subdivision, the estimated total cost to build the phase is determined and once a lot sale is recorded, the estimated unexpended portion of that cost is set up as a liability in the "Provision for land development costs".

The Division uses independent consultants to help in the preparation of construction budgets, which tend to be conservative in nature. When actual development costs related to the subdivision are incurred, they are applied against the provision.

At least once per year, actual costs are reviewed against the budget and revisions are made when the estimated unexpended portion of the provision is known to be significantly different from the revised estimate to complete the project.

The most significant factors causing revisions to estimates are as follows:

- Increases / decreases to contract amounts from when they are estimated to when they are actually awarded;
- Changes in costs that are contracted by the unit and the number of units vary from the estimate (i.e. volume of earth required to be moved); and
- Other changes typical in a construction environment where future events and uncertainty cannot be reasonably predicted, such as contingencies and allowances for those items which can only be estimated within a range of values and are known only after project completion.

The market conditions of the past four years have been somewhat more volatile than they had been in years prior. Suppliers of development inputs are working at capacity. This has increased the risk of making estimation errors.

CHANGES IN ACCOUNTING POLICIES INCLUDING PRONOUNCMENTS ISSUED BUT NOT YET ADOPTED

On January 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3861,"Financial Instruments – Disclosure and Presentation" and Section 3865, "Hedges".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified in one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except for the requirement to restate currency translation adjustment as part of other comprehensive income.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

The adoption of the new Comprehensive Income Section resulted in the Company now presenting a consolidated statement of comprehensive income and consolidated statement of accumulated other comprehensive income as a part of the consolidated financial statements. The comparative statements are restated to reflect the application of this Section for changes in the balances for foreign currency translation of self-sustaining foreign operations.

Under adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and agreements receivable are classified as loans and receivables, which are measured at amortized cost. Bank operating loan, accounts payable and accrued liabilities, debt on land inventory and debt on investment properties are classified as other financial liabilities, which are measured at amortized cost. Transaction costs related to debt financing are expensed as incurred.

The adoption of the new Financial Instruments Sections is done retrospectively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, there was no significant impact on opening retained earnings as a result of the change in accounting policies.

All derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as a normal purchase and sale. The Company has elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on or after January 1, 2003. The impact of the change in accounting policy related to embedded derivatives was not material.

On January 1, 2007, the Company adopted CICA Handbook Section 1506, "Accounting Changes", providing standards for accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The section also specifies that a change in accounting policy, if not required by a primary source of Canadian GAAP, should be made only if it results in more reliable and relevant information. Section 1506 includes disclosure rules regarding the description and the impact on the Company's financial results of future accounting standards not yet applied. The adoption of the new section did not have a material effect on the Company's financial results.

The CICA has issued the following new recommendations which apply to fiscal years beginning on or after October 1, 2007. The Company continues to evaluate the impact of the adoption of the following new sections on its consolidated financial statements:

- Financial Instruments – Disclosures, CICA Handbook Section 3862, describes the disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This section complements the principles of recognition, measurement and presentation of financial instruments of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement;
- Financial Instruments – Presentation, CICA Handbook Section 3863, establishes standards for presentation of financial instruments and non-financial derivatives. It complements standards of CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation;
- Capital Disclosures, CICA Handbook Section 1535, establishes standards for disclosing information about the entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital; and

- Inventories, CICA Handbook Section 3031, provides guidance in determining the cost of inventory and its subsequent recognition as an expense. The standard is effective for fiscal periods beginning on or after January 1, 2008 and requires retroactive application to prior period financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Melcor's management, including the President and Chief Executive Officer and the Vice-President Finance, has reviewed and evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2007.

Management has concluded that, as of December 31, 2007, the disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries and joint ventures would be made known to them by others within those entities, particularly during the period in which this report was being prepared. Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The only changes in the Corporation's internal controls over financial reporting that have materially affected the Corporation's internal controls over financial reporting have been the remediation of previously disclosable weaknesses. These include the increase of segregation of duties and the addition of independent review over certain key internal controls over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the Company's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people within the Company to disclose material information otherwise required to be set forth in the Company's reports.

FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, accounts receivable, agreements receivable, bank operating loan, income taxes payable, accounts payable and accrued liabilities, debt on land inventory and debt on investment properties. The Company believes that the fair value of financial instruments approximates their carrying values. The fair value of cash and cash equivalents, accounts receivable, bank operating loan, income taxes payable, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The fair value of agreements receivable are estimated based on the interest bearing nature of these instruments which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of debt on land inventory and debt on investment properties are estimated based on quoted market rates for similar instruments with similar terms.

Agreements receivable are a financing tool used by the Company to assist builders to acquire lots. Normal terms include repayment within one year, interest at prime plus two percent after any provision for an interest relief period and an above market interest rate for balances that are past due.

The Company retains full security until the agreement receivable has been collected. The Company seldom incurs bad debt losses in relation to agreements receivable.

Debt on land inventory is normally comprised of loans from the acquisition of land that are primarily held by the land vendor (fixed rate financing with repayments over 3 to 10 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). In addition, the Company may obtain financing from a financial institution in order to commence major infrastructure in a new community or obtain project financing when the borrowing requirement falls outside the normal parameters that are currently met with a line of credit. This type of loan usually has floating rates of interest tied to prime. The following carry forward table illustrates the changes in debt on land inventory over the past five years:

DEBT ON LAND INVENTORY

($000s)	**2007**	2006	2005	2004	2003
Balance at beginning of the year	**72,440**	50,478	40,311	35,885	29,141
New loans	**54,261**	46,205	24,575	12,396	13,596
Repayments	**(20,136)**	(24,243)	(14,408)	(7,970)	(6,852)
Balance at end of the year	**106,565**	72,440	50,478	40,311	35,885
Weighted average interest rate	**5.3%**	5.5%	4.9%	4.8%	5.1%

Debt on investment properties includes loans which are normally fixed rate and long-term in nature. Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next thirteen years for fixed rate mortgages (including the golf courses):

Year	Loan Renewal Amount ($)	Weighted Average Current Interest Rates	Number of Loans
2008	8,044,000	5.8%	6
2009	3,307,000	6.0%	2
2010	16,176,000	5.1%	5
2011	5,988,000	5.2%	1
2012	26,421,000	6.2%	6
2013	5,894,000	5.6%	2
2015	7,926,000	5.4%	2
2016	4,605,000	5.6%	1
2020	8,489,000	5.3%	2

Debt on investment properties in the amount of $135,412,000 reflects financing placed on investment properties that have a net book value of $142,693,000. The following carry forward table illustrates the changes in debt on investment properties over the past five years:

DEBT ON INVESTMENT PROPERTIES

($000s)	**2007**	2006	2005	2004	2003
Balance at beginning of the year	**89,869**	69,432	35,956	37,335	31,170
New mortgage financing (net)	**43,450**	28,244	35,818	-	9,100
Loans assumed	**4,668**	-	-	-	1,917
Repayments	**(2,574)**	(7,807)	(2,342)	(1,379)	(4,852)
Balance at end of the year	**135,413**	89,869	69,432	35,956	37,335

OUTSTANDING SHARE DATA

The Company has only one class of Common Shares issued. The issuance of the voting Common Shares is as follows:

OUTSTANDING SHARES (#)	**2007**	2006	2005	2004	2003
Outstanding shares at beginning of the year	**31,055,720**	30,755,620	30,545,030	30,828,030	30,521,130
Stock options exercised	**134,110**	300,100	830,590	337,000	306,900
Shares purchased and cancelled	**-**	-	(620,000)	(620,000)	-
Outstanding shares at end of the year	**31,189,830**	31,055,720	30,755,620	30,545,030	30,828,030

OUTSTANDING STOCK OPTIONS (#)	**2007**	2006	2005	2004	2003
Outstanding options at beginning of the year	**962,110**	1,216,610	1,821,600	2,157,000	2,396,900
Stock options granted	**169,200**	53,600	232,000	12,000	93,000
Stock options exercised	**(134,110)**	(300,100)	(830,590)	(337,000)	(306,900)
Stock options forfeited	**(4,200)**	(8,000)	(6,400)	(10,400)	(26,000)
Outstanding options at end of the year	**993,000**	962,110	1,216,610	1,821,600	2,157,000

In the future, the maximum stock options which could be exercised based on existing employee stock option programs, are in the table below. This could change if new stock options are granted or if existing options expire or are forfeited. Also, it could change if employees defer the exercise of their stock options to periods subsequent to their vesting period.

EXERCISABLE STOCK OPTIONS	2008	2009	2010	2011
Maximum options exercisable in the future (#)	758,400	112,600	111,400	10,600
Maximum increase in share capital ($)	4,136,000	1,586,000	1,580,000	176,000

FOURTH QUARTER RESULTS

Excluding a significant gain on disposal realized by the Investment Property Division during the fourth quarter of 2006, the results from the fourth quarter of 2007 were down slightly from the prior year. The decrease in earnings was primarily due to decreased lot sales in the Community Development Division in most regions, partially offset by increases in the average selling price per lot and increased earnings from the Investment Property Division.

The history of the past (4) fourth quarter results are as follows:

($000s)	2007	2006	2005	2004
	For the three months ended December 31st			
Revenue	**67,693**	85,891	69,506	35,891
Cost of sales	**(29,886)**	(44,563)	(42,664)	(19,947)
	37,807	41,328	26,842	15,944
Interest revenue	**1,982**	1,368	575	415
Interest expense	**(2,893)**	(1,710)	(1,190)	(603)
General and administrative expenses	**(3,172)**	(4,562)	(2,043)	(1,338)
Amortization expense	**(944)**	(696)	(434)	(376)
Gain/(loss) on sale of capital assets	**-**	11,003	(63)	-
Earnings before income tax expense	**32,780**	46,731	23,687	14,042
Income tax expense	**(7,517)**	(13,155)	(8,301)	(4,333)
Net earnings for the period	**25,263**	33,576	15,386	9,709
Basic earnings per common share	**0.82**	1.09	0.51	0.32
Diluted earnings per common share	**0.79**	1.06	0.50	0.31

Segmented information for the fourth quarter is as follows:

	For the three months ended December 31, 2007			For the three months ended December 31, 2006		
REVENUE ($000s)	Segment Revenue	Inter-segment Eliminations	External Revenue	Segment Revenue	Inter-segment Eliminations	External Revenue
Community development	**59,897**	**-**	**59,897**	81,117	(495)	80,622
Property development	**1,660**	**(1,650)**	**10**	7,019	(6,990)	29
Investment property	**7,790**	**(284)**	**7,506**	5,232	(151)	5,081
Recreation property	**315**	**(35)**	**280**	190	(31)	159
	69,662	**(1,969)**	**67,693**	93,558	(7,667)	85,891
EARNINGS ($000s)	Segment Earnings	Inter-segment Eliminations	External Earnings	Segment Earnings	Inter-segment Eliminations	External Earnings
Community development	**35,217**	**(208)**	**35,009**	38,417	(129)	38,288
Property development	**307**	**(490)**	**(183)**	1,126	(1,115)	11
Investment property	**875**	**-**	**875**	11,740	-	11,740
Recreation property	**(492)**	**-**	**(492)**	(365)	-	(365)
	35,907	**(698)**	**35,209**	50,918	(1,244)	49,674
Non-allocated items:						
Interest income			**60**			33
Interest expense			**(1,239)**			(286)
General and administrative expenses			**(1,250)**			(2,690)
Earnings before income tax expense			**32,780**			46,731
Income tax expense			**(7,517)**			(13,155)
Net earnings for the period			**25,263**			33,576

NON-GAAP FINANCIAL MEASURES

Melcor uses several non-GAAP measures in evaluating and measuring certain performance results. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

Non-GAAP measures include:

- Net Operating Income (NOI) – this measures revenue less direct operating expenses.
- Earnings before interest, taxes (income), depreciation and amortization (EBITDA) – this measure is often used in the real estate industry because it isolates earnings before income taxes (at Melcor's Divisional level, income taxes are not applicable), interest expense, depreciation and amortization to measure operating performance. Interest expense can distort the comparable performance of a property as it depends on the amount of financing carried by the property and the interest rate charged on the loan. Depreciation expense can vary depending on depreciation policies, age of the property and depreciable value of the property. Melcor includes amortization of tenant leasing costs as an expense in arriving at EBITDA.

Calculations

The Company uses the following calculations in measuring the performance of its Divisions:

a) NOI as % of rental revenue = net operating income / revenue

b) Earnings from operations as % of net investment = Earnings from operations / average net investment, i.e. [(opening net investment + closing net investment) / 2]

c) Divisional earnings as % of net investment = Division earnings / average net investment, i.e. [(opening net investment + closing net investment) / 2]

d) EBITDA as % of asset cost = EBITDA / average asset cost, i.e. [(opening asset cost + closing asset cost) / 2]

e) % of assets financed = debt / assets

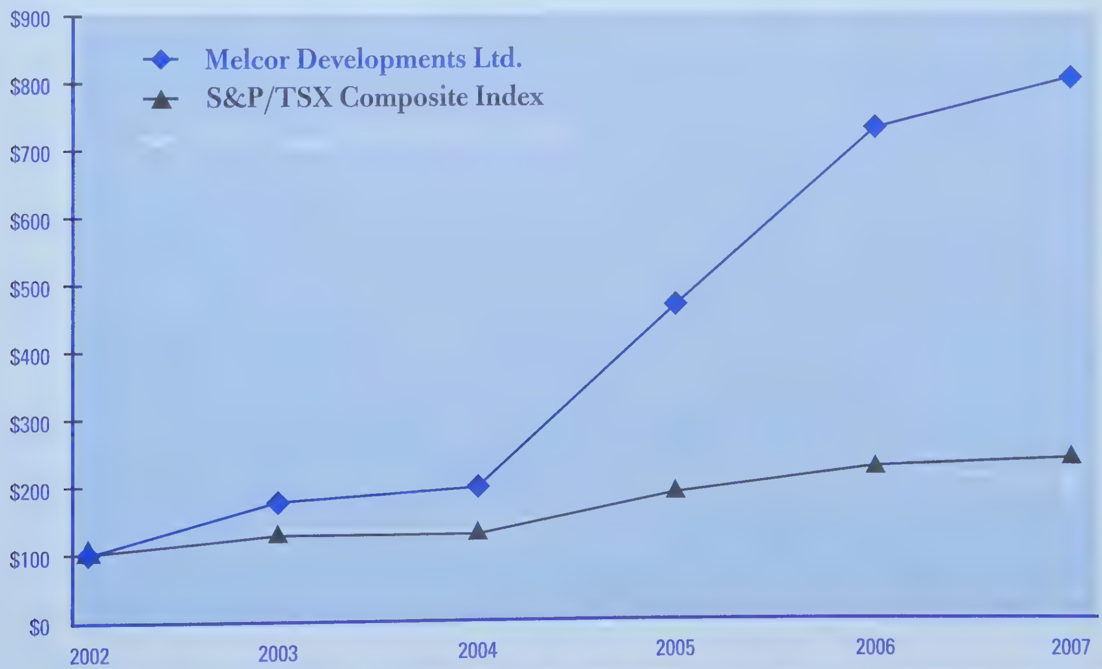
f) Same building calculation = this compares the results of a building owned if it is owned for the entire current and prior years.

ASSUMPTIONS FOR 2008 - 2010

- Alberta's economy will continue to experience growth leading to high levels of employment and job growth.
- Canada's economy will remain stable with low inflation, low interest rates, a higher dollar (i.e. $.95 range) and moderate business and consumer confidence.
- Demand for Alberta commodities will remain strong, especially demand for oil sands products and natural gas.
- Energy prices are expected to remain at high levels but with significant volatility.
- U.S. trade will be pressured due to a high Canadian dollar, weak consumer confidence, growing U.S. trade deficit and security concerns in the U.S.
- The real estate market will remain strong in Alberta due to job creation, moderate in-migration, confidence and the second generation of the Baby Boom. Higher prices and costs will negatively effect affordability and excess supply of housing will push prices down.
- Anti-growth sentiments and financial challenges by municipalities will negatively impact the development industry.
- Increasing real estate inventories and moderating demand will continue to create highly competitive markets while rising input costs will put pressure on margins.
- Melcor will continue to operate in the same business, geographic areas and with the same structure.

Performance Chart - Five Year Cumulative Total Return on $100 Investment (December 31, 2002 - December 31, 2007)

The following chart illustrates Melcor's five-year cumulative total shareholder return, assuming an initial investment of $100 with all dividends reinvested versus the return on the TSX 300 Composite Index and the TSX Real Estate Index.



CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") is responsible for the stewardship of the Company. In executing this role, the Board shall oversee the conduct, direction and results of the business. In turn, management is mandated to conduct the day-to-day business and affairs of the Company and is responsible for implementing the Board's strategies, goals and directions. The Board and its members shall at all times act in the best interests of the Company and its actions shall reflect its responsibility of establishing proper business practices and high ethical standards expected of the Company. The Board has approved a Business Code of Conduct for the Company that is applicable to all Directors, Officers and Employees of the Company. The Board has adopted Corporate Governance Guidelines which, amongst other matters, sets out the Board's principal responsibilities. In discharging the Board's stewardship obligations, the following are specific principal responsibilities of the Board:

- To ensure that the Company adopts a strategic planning process;
- To review and monitor the Company's principal business risks, as identified by management, and the system to manage such risks;
- To appoint, develop and monitor senior management and ensure that management provides for succession planning;
- To ensure that the Company has a policy in place to enable it to communicate effectively with shareholders, other stakeholders and the public generally;
- To ensure there are control and information systems in place for effective discharge of the Board's responsibilities;
- To ensure appropriate corporate governance at all times;
- To know and understand the business of the Company to the best of its ability; and
- To satisfy itself that the Company continually performs with business conduct of the highest quality.

A majority of the Board is independent. The Audit Committee and the Governance Committee consist solely of independent directors. As required, the Board will meet in Executive Session at which only the independent directors are in attendance. As the Executive Chairman is not considered to be independent, the Board has appointed a Lead Director with written terms of reference for such position.

Governance Committee

The Board believes in the importance of maintaining sound corporate governance practices, and has therefore established the Governance Committee to periodically review, evaluate and modify governance processes as necessary. This Committee makes recommendations to the Board, in accordance with their approved terms of reference. The Committee is responsible for ensuring that an appropriate corporate governance system is in place for the Board's overall stewardship responsibility and the discharge of its obligations to the stakeholders of the Company. The Committee is also responsible for proposing new nominees to the Board and for assessing the overall performance of the Board and the committees of the Board. With respect to compensation matters, the Committee is responsible for reviewing compensation levels of senior management, evaluating the performance of management and considering management succession and related matters. The committee receives data on salary levels from the Company and from independent surveys. The executive compensation program is comprised of a base salary, annual incentive compensation and a stock option program.

The Governance Committee is comprised of three independent directors. The current members of the Governance Committee are Allan E. Scott (Chairman), William D. Grace and Ross A. Grieve.

Audit Committee

The Audit Committee is appointed by, and responsible to the Board. This Committee approves, monitors, evaluates, advises and makes recommendations, in accordance with approved terms of reference, on matters affecting the external and internal audits, risk management matters, the integrity of financial reporting and the accounting control policies and practices of the Company.

The involvement of the Committee in overseeing the financial reporting process, including assessing the reasonableness of management's accounting judgments and estimates and reviewing key filings with regulatory agencies, is an important element of the company's internal control over financial reporting. The Committee has oversight responsibility for the performance of both the internal auditors (if any) and the external auditors. The Committee also ensures the qualifications and independence of the external auditors. The Committee has oversight of the Company's compliance with legal and regulatory requirements. It is not the duty of the Committee to plan or conduct audits, or to determine that the Company's financial statements are complete, accurate, and in accordance with generally accepted accounting principles.

The current members of the Audit Committee are William D. Grace (Chairman), W. Garry Holmes and Catherine M. Roozen. Each member is considered by the Board of Directors to be independent and financially literate within the meaning of Multilateral Instrument 52-110 – Audit Committees.

The Committee assesses the performance and considers the annual appointment of external auditors for recommendation to the Board for ultimate recommendation for appointment by the shareholders, including a review of the auditor's performance, qualifications, independence, audit plans and fees. All non-audit services provided by the external auditors or its affiliates are pre-approved by the committee which also considers any potential impact the non-audit service may have on the independence of the external audit work. The committee also receives annual reports from the external auditor on their views of the quality (not just the acceptability) of the Company's annual and interim financial reporting.

The auditors, Audit Committee and management maintain regular and open communication in relation to the audit of the Company's financial statements. The auditors review and discuss the Company's unaudited quarterly financial statements and earnings releases with management and the Audit Committee.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31 ($000s)	2007	2006
Revenue	**207,024**	203,402
Cost of sales	**(98,573)**	(115,886)
	108,451	87,516
Interest income	**6,772**	4,439
Interest expense (Note 16)	**(8,968)**	(6,427)
General and administrative expenses	**(13,814)**	(11,786)
Amortization expense	**(3,218)**	(2,240)
Gain on sale of investment properties and capital assets	**121**	11,118
Earnings before income taxes	**89,344**	82,620
Income tax expense (Note 11)		
Current	**(21,178)**	(17,830)
Future	**(4,496)**	(7,019)
	(25,674)	(24,849)
Net earnings for the year	**63,670**	57,771
Retained earnings, beginning of the year	**225,520**	177,048
Dividends	**(12,458)**	(9,299)
Retained earnings, end of the year	**276,732**	225,520
Basic earnings per share (Note 14)	**2.05**	1.87
Diluted earnings per share (Note 14)	**2.00**	1.83

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31 ($000s)	2007	2006
Net earnings for the year	**63,670**	57,771
Other comprehensive (loss) income		
Unrealized (losses) gains on translation of financial statements of self sustaining foreign operation	**(1,274)**	224
Comprehensive income	**62,396**	57,995

CONSOLIDATED BALANCE SHEET

As at December 31 ($000s)	**2007**	2006
ASSETS		
Cash and cash equivalents	**10,466**	11,564
Accounts receivable	**6,366**	5,696
Agreements receivable (Note 3)	**140,625**	127,178
Land inventory (Note 4)	**384,974**	255,570
Investment properties (Note 5)	**168,813**	112,430
Capital assets (Note 6)	**478**	331
Deferred costs and other assets (Note 7)	**15,043**	10,158
	726,765	522,927
LIABILITIES		
Bank operating loan (Note 8)	**85,629**	29,599
Accounts payable and accrued liabilities	**28,642**	26,563
Income taxes payable	**3,689**	3,997
Provision for land development costs	**51,103**	39,805
Debt on land inventory (Note 9)	**106,565**	72,440
Debt on investment properties (Note 10)	**135,413**	89,869
Future income taxes (Note 11)	**29,240**	24,744
	440,281	287,017
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	**11,317**	10,789
Contributed surplus (Note 12 (f))	**316**	208
Retained earnings	**276,732**	225,520
Accumulated other comprehensive loss (Note 13)	**(1,881)**	(607)
	286,484	235,910
	726,765	522,927

SIGNED ON BEHALF OF THE BOARD

PER: ______________ Director

PER: Ralph Young Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31 ($000s)	2007	2006
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings for the year	**63,670**	57,771
Non cash items:		
Amortization of investment properties	**3,148**	2,174
Amortization of capital assets	**70**	66
Stock-based compensation expense (Note 12 (f))	**108**	120
(Gain)/loss on sale of investment properties	**(121)**	(11,122)
(Gain)/loss on sale of capital assets	**-**	4
Future income taxes	**4,496**	7,019
	71,371	56,032
Agreements receivable	**(13,447)**	(41,843)
Development activities (Note 21)	**(35,760)**	8,203
Operating assets and liabilities (Note 21)	**(183)**	(4,361)
	21,981	18,031
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of land inventory (Note 4)	**(38,496)**	(25,477)
Proceeds from sale of investment properties	**179**	16,775
Investment property additions	**(52,510)**	(24,279)
Capital asset additions	**(217)**	(74)
	(91,044)	(33,055)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Bank operating loan	**56,030**	13,573
Bank loans on land purchased (Note 9)	**3,124**	16,333
Repayment of debt on land inventory (Note 9)	**(20,136)**	(24,243)
Proceeds from investment property financing	**43,450**	28,244
Repayment of debt on investment properties	**(2,574)**	(7,807)
Dividends	**(12,458)**	(9,299)
Share capital issued (Note 12 (a))	**529**	766
Common shares purchased (Note 12 (a))	**-**	-
	67,965	17,567
Increase (decrease) in cash and cash equivalents during the year	**(1,098)**	2,543
Cash and cash equivalents, beginning of the year	**11,564**	9,021
Cash and cash equivalents, end of the year	**10,466**	11,564

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Significant areas requiring the use of management estimates relate to the determination of the provision for land development costs and potential impairment of assets. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of consolidation

These consolidated financial statements include:

(i) The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies (the "Company"):
Melcor Developments Arizona, Inc.
Melcor Lakeside Inc.
Stanley Investments Inc.

(ii) Investments in twenty-one joint ventures (2006 – sixteen) are accounted for using the proportionate consolidation method.

b) Recognition of revenue

Revenue is recognized in each business segment as follows:

(i) Community Development – revenue from the sale of land is recognized when a minimum 15% of the sale price has been received, the sale is unconditional and possession has been granted.

(ii) Investment Property – rental revenue from properties is recognized over the term of the related lease agreement.

(iii) Recreation Property – revenue from golf courses is recognized as services are provided.

c) Capitalization of costs

(i) Community Development – The Company capitalizes all direct costs relating to land inventory including carrying costs such as property taxes, interest on debt specifically related to the project and other costs net of any rental income that may be received. Where the net realizable value of any property in land inventory does not exceed its capitalized carrying value, all additional carrying costs relating to the property are charged to current operations and are not capitalized. General administrative overhead expenses are not allocated and capitalized to properties.

(ii) Property Development and Investment Property – For acquired and constructed properties, building revenues and operating costs are capitalized as part of the cost of the property until the property is 75% occupied by tenants, subject to a reasonable period dependent on the nature of the property.

d) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired. These items are carried at fair value.

e) Land inventory

Land inventory is recorded at the lower of cost and net realizable value and includes undeveloped land costs, capitalized carrying costs related to holding the land and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "Provision for land development costs", are recorded as a liability at the time that a lot sale is recorded.

Adjustments are made to the liability with a corresponding adjustment to cost of sales as actual costs are incurred.

The cost of land and carrying costs are allocated to each phase of development on a prorated acreage basis at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

f) Investment properties

Commercial properties and the manufactured home community are amortized using the straight line method based upon an estimated useful life of 40 to 60 years. Golf courses and related assets are amortized using the straight line method based upon their estimated useful lives at rates from 4% to 30%.

g) Capital assets

Capital assets are amortized using the declining balance method of amortization, over their estimated useful lives, at rates from 10% to 30%.

h) Deferred costs and other assets

Deferred costs and other assets includes prepaid expenses, sundry assets, tenant leasing costs and those major repairs which are recoverable from tenants. These assets are amortized on a straight line basis over the estimated useful lives or lease period and are recorded at the lower of cost less accumulated amortization and net realizable value.

i) Impairment of long lived assets

Long lived assets include investment properties, capital assets and tenant leasing costs. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized, is measured as the amount by which the carrying value exceeds its fair value.

j) Income taxes

Future income taxes are recognized at substantively enacted tax rates for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantial enactment.

k) Foreign currency translation

The Company's foreign operation is of a self-sustaining nature. Assets and liabilities of the foreign operation are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Gains or losses on translation are recognized as Other Comprehensive Income.

l) Per share amounts

The Company uses the treasury stock method for calculation of diluted earnings per share under which deemed proceeds from the exercise of options are considered to be used to reacquire common shares at an average share price.

m) Stock option plan

The Company uses the fair value based method of accounting for stock options issued to employees. Under this method, the estimated fair value of options on the date of grant is recognized as compensation expense over the period in which the employee services are rendered.

n) Asset retirement obligation

The Company has determined that it has a conditional asset retirement obligation relating to the removal of asbestos in one of its investment properties. The Company believes that there is insufficient information to estimate the fair value of the asset retirement obligation because the settlement date or the range of potential settlement dates has not been specified by others and information is not available to apply an expected present value technique. As a result, the Company has not recorded a conditional asset retirement obligation in these Financial Statements.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

On January 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3861,"Financial Instruments – Disclosure and Presentation" and Section 3865, "Hedges".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified in one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend

on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except for the requirement to restate currency translation adjustment as part of other comprehensive income.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

The adoption of the new Comprehensive Income Section resulted in the Company now presenting a consolidated statement of comprehensive income and consolidated statement of accumulated other comprehensive income as a part of the consolidated financial statements. The comparative statements are restated to reflect the application of this Section for changes in the balances for foreign currency translation of self-sustaining foreign operations.

Under adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and agreements receivable are classified as loans and receivables, which are measured at amortized cost. Bank operating loan, accounts payable and accrued liabilities, debt on land inventory and debt on investment properties are classified as other financial liabilities, which are measured at amortized cost. Transaction costs related to debt financing are expensed as incurred.

The adoption of the new Financial Instruments Sections is done retrospectively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, there was no significant impact on opening retained earnings as a result of the change in accounting policies.

All derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as a normal purchase and sale. The Company has elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on or after January 1, 2003. The impact of the change in accounting policy related to embedded derivatives was not material.

On January 1, 2007, the Company adopted CICA Handbook Section 1506, "Accounting Changes", providing standards for accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The section also specifies that a change in accounting policy, if not required by a primary source of Canadian GAAP, should be made only if it results in more reliable and relevant information. Section 1506 includes disclosure rules regarding the description and the impact on the Company's financial results of future accounting standards not yet applied. The adoption of the new section did not have a material effect on the Company's financial results.

The CICA has issued the following new recommendations which apply to fiscal years beginning on or after October 1, 2007. The Company continues to evaluate the impact of the adoption of the following new sections on its consolidated financial statements:

- Financial Instruments – Disclosures, CICA Handbook Section 3862, describes the disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This section complements the principles of recognition, measurement and presentation of financial instruments of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement;
- Financial Instruments – Presentation, CICA Handbook Section 3863, establishes standards for presentation of financial instruments and non-financial derivatives. It complements standards of CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation;
- Capital Disclosures, CICA Handbook Section 1535, establishes standards for disclosing information about the entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital; and
- Inventories, CICA Handbook Section 3031, provides guidance in determining the cost of inventory and its subsequent recognition as an expense. The standard is effective for fiscal periods beginning on or after January 1, 2008 and requires retroactive application to prior period financial statements.

3. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for $10,800,000 (2006 - $20,500,000 due in 2008) which is due in 2009. Subsequent to the interest adjustment date, which provides an interest relief period of three months to qualifying registered builders, these receivables earn interest at prime plus two percent (8.00% at December 31, 2007 and 8.00% at December 31, 2006) and are secured by the specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region.

4. LAND INVENTORY

($000s)	2007	2006
Undeveloped land and carrying costs	**244,307**	161,774
Pre-development costs	**48,420**	34,596
Developed land inventory cost	**92,247**	59,200
	384,974	255,570

During the year the Company purchased land in the amount of $89,633,000 (2006 - $55,349,000) and received vendor financing in the amount of $51,137,000 (2006 - $29,872,000).

5. INVESTMENT PROPERTIES

($000s)		2007			2006	
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Commercial properties	**128,397**	**(12,278)**	**116,119**	91,023	(9,898)	81,125
Properties under development	**35,230**	**-**	**35,230**	19,839	-	19,839
Manufactured home community and related assets	**3,497**	**(618)**	**2,879**	3,493	(552)	2,941
Golf courses and related assets	**18,336**	**(3,751)**	**14,585**	11,861	(3,336)	8,525
	185,460	**(16,647)**	**168,813**	126,216	(13,786)	112,430

6. CAPITAL ASSETS

($000s)		2007			2006	
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computerware and furniture	**1,248**	**(770)**	**478**	1,027	(698)	329
Other buildings and equipment	**31**	**(31)**	**-**	31	(29)	2
	1,279	**(801)**	**478**	1,058	(727)	331

7. DEFERRED COSTS AND OTHER ASSETS

($000s)	2007	2006
Tenant leasing costs	**8,188**	6,509
Major repairs	**3,752**	3,151
Other investments	**2,000**	-
Sundry prepaids	**810**	240
Sundry inventory	**293**	258
	15,043	10,158

The Company paid tenant leasing costs of $3,384,000 during the year (2006 - $1,917,000) and amortized $1,705,000 (2006 - $1,456,000) of tenant leasing cost against respective lease revenues.

During the year, the Company incurred $1,105,000 in major repairs recoverable from tenants (2006 - $1,302,000) and amortized $504,000 (2006 - $456,000) into building operating costs.

8. BANK OPERATING LOAN

The Company has an available credit facility with approved loan limits of $109,770,000 (2006 - $61,800,000) with a major chartered bank. The portion of these loan limits that pertain solely to the Company is $90,000,000 with the remaining balance pertaining to specific joint ventures.

The amount of the total credit facilities currently used is $85,629,000 (2006 - $29,599,000). The Company has pledged agreements receivable, specific lot inventory and a general security agreement as collateral for its credit facility. This facility may be terminated by the bank upon one year's notice. Interest is paid monthly at rates varying from prime plus 0.5% to prime plus 1.0% (6.50% – 7.00% at December 31, 2007 and 6.50% – 7.00% at December 31, 2006).

9. DEBT ON LAND INVENTORY

($000s)	2007	2006
Agreements payable with interest at the following rates:		
Fixed rates of 5.0% - 7.0%	**85,914**	51,051
Variable rates of prime plus 1.0% to prime plus 1.25% (7.00% - 7.25% at Dec. 31/07 and 7.00% - 7.25% at Dec. 31/06)	**20,651**	21,389
	106,565	72,440

During the year, the Company received vendor financing on land purchases of $51,137,000 (2006 - $29,872,000), obtained bank financing of $3,124,000 (2006 - $16,333,000) and made debt repayments of $20,136,000 (2006 - $24,243,000).

Specific land inventory with a book value of $221,557,000 (2006 - $136,245,000) has been pledged as collateral for the above debt. The weighted average interest rate of agreements payable, based on year end balances, is 5.3% (2006 – 5.5%).

The agreements mature from 2008 to 2017 and the minimum principal payments due within each of the next five years are as follows: 2008 - $40,431,000; 2009 - $21,054,000; 2010 - $15,099,000; 2011 - $10,550,000; 2012 – $8,493,000.

10. DEBT ON INVESTMENT PROPERTIES

($000s)	2007	2006
Mortgage amortized over 10 years with interest at prime plus 1.25% (7.25% at Dec. 31/07 and 7.25% at Dec. 31/06)	**1,768**	1,284
Project loan, maturing July 2008, with interest at prime plus 0.25% (6.25% at Dec. 31/07 and 6.25% at Dec. 31/06)	**26,416**	9,394
Project loan, maturing January 2009, with interest at prime plus 0.25% (6.25% at Dec. 31/07)	**4,000**	-
Mortgages amortized over 15 to 25 years at fixed rates varying from 4.80% - 7.53% (2006: 4.80% - 7.53%)	**103,229**	79,191
	135,413	89,869

Specific real estate with a net book value of $142,693,000 (2006 - $94,069,000) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average interest rate for the above debts, based on year end balances, is 5.8% (2006 – 5.7%).

Principal payments due within each of the next five years, assuming renewal at similar terms are: 2008 – $29,438,000; 2009 - $7,014,000; 2010 - $3,189,000; 2011 - $3,374,000; 2012 - $3,570,000.

Principal payments due within each of the next five years assuming no renewal are: 2008 – $38,723,000; 2009 - $9,930,000; 2010 - $17,222,000; 2011 - $8,068,000; 2012 - $29,179,000.

11. FUTURE INCOME TAXES

($000s)	2007	2006
Investment property book values in excess of tax values	**4,841**	4,607
Reserve on amounts due in subsequent years	**20,091**	15,945
Interest and other costs deducted for tax purposes	**1,043**	1,155
Tenant leasing costs	**3,265**	3,037
	29,240	24,744

The reversal of future income taxes is primarily dependent upon the timing of development and sale of the related assets and on the timing of the receipt of cash relating to agreements receivable. Income taxes paid during the year were $21,486,000 (2006 - $19,642,000). Income tax expense is calculated as follows:

($000s)	2007	2006
Income tax at statutory rate (2007 – 32.12%; 2006 – 32.49%)	**28,697**	26,843
Increase (decrease) resulting from:		
Benefit recorded for capital gains realized during the year	**-**	(1,991)
Benefit recorded for expected future tax rate reductions	**(3,076)**	-
Non deductible expenses and other	**53**	(3)
Income tax expense	**25,674**	24,849

12. SHARE CAPITAL

a) Common Shares

	2007		2006	
	Number of Shares Issued	**Amount ($000's)**	Number of Shares Issued	Amount ($000's)
Common shares, beginning of the year	**31,055,720**	**10,789**	30,755,620	10,023
Share options exercised	**134,110**	**528**	300,100	766
Shares purchased and cancelled	**-**	**-**	-	-
Common shares, end of the year	**31,189,830**	**11,317**	31,055,720	10,789

Authorized:
- Unlimited Common Shares
- Unlimited Common Shares, Non-Voting
- Unlimited First Preferred Shares, Non-Voting, issued in series

On April 12, 2007, the Shareholders of the Company approved the creating of a new class of Common Non-Voting Shares in an unlimited number and to amend the authorized capital of the Company from a stated amount to an unlimited amount.

b) Stock-Based Compensation Plan

On September 28, 2000, the Company's Board of Directors approved a stock-based compensation plan. Under the plan, the Company may grant options to full-time, salaried employees and designated contractors after one year of service. The plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. The options vest at 20% per year and expire seven (7) years from the date of issuance. The plan was approved by the Company's shareholders at the Shareholders Annual Meeting in May 2001.

On February 23, 2007 the Company's Board of Directors approved a stock-based compensation plan. Under this plan, the Company may grant options to full-time, salaried employees and designated contactors after one year of service. The plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The plan was approved by the Company's shareholders at the Shareholder's Annual Meeting in April 2007.

c) Stock Options Available for Granting

September 28, 2000 Plan	2007	2006
Stock options available, beginning of the year	**59,200**	104,800
Stock options granted	**-**	(53,600)
Stock options forfeited	**4,200**	8,000
Stock options available, end of the year	**63,400**	59,200

February 23, 2007 Plan	2007	2006
Stock options available, beginning of the year	**-**	-
Stock options made available under the plan	**3,000,000**	-
Stock options granted	**(169,200)**	-
Stock options forfeited	**-**	-
Stock options available, end of the year	**2,830,800**	-

The Company has 3,887,200 Common Shares reserved for issuance under the plan (2006 –1,021,310).

d) Stock Options Outstanding Under the Plan

	2007		2006	
	# of Options	**Weighted Average Option Price**	# of Options	Weighted Average Option Price
Stock options outstanding, beginning of the year	**962,110**	**4.947**	1,216,610	3.856
Stock options granted	**169,200**	**19.340**	53,600	16.600
Stock options exercised	**(134,110)**	**3.941**	(300,100)	2.550
Stock options forfeited	**(4,200)**	**6.012**	(8,000)	7.064
Stock options outstanding, end of the year	**993,000**	**7.531**	962,110	4.947

e) Stock Options Outstanding and Exercisable Under the Plan

Stock Option Expiry Date	Outstanding Stock Options (#)	Stock Option Price Per Share ($)	Stock Options Exerciseable at Dec. 31, 2007
July 26, 2008	4,000	2.428	4,000
July 25, 2009	17,600	3.858	17,600
October 25, 2009	550,000	3.530	550,000
December 12, 2009	4,000	3.495	4,000
October 28, 2010	18,600	3.930	-
July 27, 2011	3,600	4.624	1,200
July 26, 2012	175,000	7.064	41,800
December 17, 2012	169,200	19.340	-
July 27, 2013	51,000	16.600	8,600
	993,000		627,200

f) Stock-Based Compensation Expense

The following weighted-average assumptions were used in the Black-Scholes calculations for stock options granted:

	2007	2006
Annualized volatility	**15%**	20%
Risk-free interest rate	**3.4%**	3.27%
Annual dividend rate	**4.14%**	2.41%
Expected life of options in years	**3**	5

The fair value of stock options granted during the year was $1.600 per stock option (2006 - $2.870), which resulted in a $108,000 (2006 - $120,000) charge to stock-based compensation expense and corresponding credit to contributed surplus.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

($000s)	2007	2006
Balance, beginning of the year, as previously reported	**-**	-
Adjustment upon adoption of new accounting policies	**(607)**	(831)
Restated balance, beginning of the year	**(607)**	(831)
Other comprehensive (loss) income	**(1,274)**	224
Balance, end of the year	**(1,881)**	(607)

This adjustment represents the net unrealized foreign currency translation gain (loss) on the Company's net investment in its self-sustaining foreign operation.

14. PER SHARE AMOUNTS

(#)	2007	2006
Basic weighted average common shares outstanding during the year	**31,120,762**	30,909,314
Dilutive effect of options	**640,859**	698,245
Diluted weighted average common shares	**31,761,621**	31,607,559

Basic net earnings per share is calculated by dividing the Company's net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated to give dilutive effect to share options.

15. FINANCIAL GUARANTEES

In the normal course of operations, the Company issues letters of credit as security for the completion of obligations pursuant to development agreements signed with municipalities. At December 31, 2007 the Company had $33,116,000 (December 31, 2006 - $30,516,000) in letters of credit outstanding and recorded a net liability of $51,103,000 (December 31, 2006 - $39,805,000) in provision for land development costs in respect of these development agreements.

Normally, obligations secured by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four years) and are ultimately extinguished when the municipality has issued final completion certificates.

The Company enters into joint venture agreements and, in doing so, may take on risk beyond its proportionate interest in the joint venture. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of the Company's covenant will backstop that of the other joint venture participant(s) who also provide similar guarantees. The Company will have to perform on its guarantee only if a joint venture participant was in default of their guarantee. At December 31, 2007 the Company had guaranteed $2,265,000 (2006 - $6,169,000) in loans and $5,536,000 (2006 - $6,350,000) in letters of credit in support of other participant's interests.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, the Company is diligent in its selection of joint venture participants. As well, the Company has remedies available within the joint venture agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint venture participants.

16. INTEREST EXPENSE

($000s)	2007	2006
Interest on bank operating loan	**4,340**	2,426
Interest on debt – land and properties under development	**5,200**	2,741
Interest on debt – investment properties	**4,628**	4,001
	14,168	9,168
Less capitalized interest	**(5,200)**	(2,741)
	8,968	6,427

Cumulative interest capitalized on land inventory at the end of the year is $12,654,000 (2006 - $8,612,000). Interest paid during the year was $12,907,000 (2006 - $8,560,000).

17. INTEREST RATE RISK

The Company's debt consists of loans that are subject to interest rate fluctuations. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $1,385,000 (2006 - $590,000) based upon year end debt balances. This amount is partially offset by the interest earned on agreements receivable which is also subject to interest rate fluctuations.

18. JOINT VENTURES

					CASH FLOWS FROM (USED IN)		
($000s)	Assets	Liabilities	Revenue	Earnings	Operating Activities	Investing Activities	Financing Activities
2007	**192,600**	**67,772**	**50,489**	**26,398**	**14,926**	**(38,858)**	**(4,579)**
2006	120,963	56,045	55,572	17,157	24,651	(18,232)	(5,241)

The above table includes the Company's proportionate share of the assets, liabilities, revenue, earnings and cash flow information of twenty-one joint ventures (2006 – sixteen) that are proportionately consolidated in these financial statements. The company's proportionate interest of these joint ventures ranges from 30% - 75% ownership.

19. SEGMENTED INFORMATION

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses. The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties. Any inter-segment sales and the unrealized profits therefrom, have been eliminated.

Community Development

This division is responsible for purchasing and developing land to be sold as residential, industrial and commercial lots.

Property Development

This division develops investment properties which, when constructed and at least 75% leased, are transferred to the Investment Property Division which will hold and manage the asset. The transfer is at the Company's estimate of fair value and is recorded as revenue in the Property Development Division.

Investment Property

This division owns 37 properties (2006 – 25 properties), which it holds to earn rental income.

Recreation Property

This division owns and manages two 18-hole golf course operations (one of which is 60% owned), has a 50% ownership interest in one 18-hole golf course and owns a golf course under construction.

The community development segment includes the operations of its wholly owned subsidiary in the United States. A summary of its activities are as follows:

($000s)	2007	2006
External revenue	16	1,085
Earnings	70	799
Interest Income	267	296
Assets	7,753	9,092
Equity	7,567	8,770

OTHER SEGMENTED INFORMATION

	For the year ended December 31, 2007			For the year ended December 31, 2006		
REVENUE ($000s)	Segment Revenue	Inter-segment Eliminations	External Revenue	Segment Revenue	Inter-segment Eliminations	External Revenue
Community development	182,941	(5,328)	177,613	183,581	(4,990)	178,591
Property development	8,112	(8,025)	87	13,638	(10,980)	2,658
Investment property	25,771	(678)	25,093	19,765	(503)	19,262
Recreation property	4,324	(93)	4,231	3,026	(135)	2,891
	221,148	(14,124)	207,024	220,010	(16,608)	203,402

EARNINGS ($000s)	Segment Earnings	Inter-segment Eliminations	External Earnings	Segment Earnings	Inter-segment Eliminations	External Earnings
Community development	98,803	(4,011)	94,792	78,630	(2,829)	75,801
Property development	1,377	(1,860)	(483)	1,589	(1,515)	74
Investment property	4,524	-	4,524	13,999	-	13,999
Recreation property	5	-	5	89	-	89
	104,709	(5,871)	98,838	94,307	(4,344)	89,963
Non-allocated items:						
Interest income			180			294
Interest expense			(3,242)			(1,422)
General and administrative expenses			(6,432)			(6,215)
Earnings before income tax expense			89,344			82,620
Income tax expense			(25,674)			(24,849)
Net earnings for the year			63,670			57,771

INTEREST ($000s)	Per Segment	Inter-segment Eliminations	Per Financial Statement	Per Segment	Inter-segment Eliminations	Per Financial Statement
INTEREST INCOME:						
Community development	6,557	-	6,557	4,109	-	4,109
Property development	-	-	-	-	-	-
Investment property	33	-	33	36	-	36
Recreation property	2	-	2	-	-	-
Non-allocated	180	-	180	315	(21)	294
	6,772	-	6,772	4,460	(21)	4,439
INTEREST EXPENSE:						
Community development	(726)	-	(726)	(935)	21	(914)
Property development	-	-	-	-	-	-
Investment property	(4,699)	-	(4,699)	(3,811)	-	(3,811)
Recreation property	(301)	-	(301)	(280)	-	(280)
Non-allocated	(3,242)	-	(3,242)	(1,422)	-	(1,422)
	(8,968)	-	(8,968)	(6,448)	21	(6,427)

OTHER SEGMENTED INFORMATION (CONTINUED)

($000s)	Amortization		Expenditures		Total carrying value of identifiable assets	
	2007	2006	**2007**	2006	**2007**	2006
Community development	**2**	3	**-**	-	**528,292**	383,895
Property development	**-**	-	**17,196**	11,672	**35,893**	20,941
Investment property	**2,455**	1,848	**28,493**	9,803	**132,379**	94,030
Recreation property	**703**	333	**6,821**	2,804	**14,922**	8,732
Common	**58**	56	**217**	74	**15,279**	15,329
	3,218	2,240	**52,727**	24,353	**726,765**	522,927

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consists of cash and cash equivalents, accounts receivable, agreements receivable, bank operating loan, income taxes payable, accounts payable and accrued liabilities, debt on land inventory, and debt on investment properties. The Company believes that the fair value of financial instruments approximates their carrying values. The fair value of accounts receivable, bank operating loan, income taxes payable, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The fair value of agreements receivable are estimated based on the interest bearing nature of these instruments which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of debt on land inventory and debt on investment properties are estimated based on quoted market rates for similar instruments with similar terms.

21. DEFINITIONS FOR STATEMENT OF CASH FLOWS

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of land inventory and the amount related to the application of the current rate method of translation of the US subsidiary, which is a decrease of $1,274,000 (2006 – an increase of $224,000). Purchase of land inventory is the cost of land net of vendor financing received (see Note 4 – Land Inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, deferred costs and other assets, income taxes payable, accounts payable and accrued liabilities. Excluded from operating assets and liabilities are investment property additions that are unpaid and in accounts payable as at year end.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Annual Report, including the consolidated financial statements, is the responsibility of the management of the Company. The financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants in all material respects. Financial information contained elsewhere in this Report is consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and which facilitates the preparation of relevant, timely and reliable financial information which reflects, where necessary, management's best estimates and judgements based on informed knowledge of the facts.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the consolidated financial statements. The Board has appointed an Audit Committee comprising three unrelated and independent directors to approve, monitor, evaluate, advise or make recommendations on matters affecting the external audit, the financial reporting and the accounting controls, policies and practices of the Company under its terms of reference.

The Audit Committee meets at least four times per year with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the Management Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Directors of Melcor Developments Ltd.

PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders, have examined the consolidated financial statements and have read Management's Discussion and Analysis. Their report as auditors is set forth below.

AUDITORS' REPORT

To the Shareholders of Melcor Developments Ltd.

We have audited the consolidated balance sheets of Melcor Developments Ltd. as at December 31, 2007 and 2006 and the consolidated statements of earnings and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta
February 22, 2008

FIVE YEAR REVIEW

BALANCE SHEET ($000s)	2007	2006	2005	2004	2003
ASSETS					
Cash and cash equivalents	**10,466**	11,564	9,021	6,151	5,080
Accounts and receivable	**6,366**	5,696	4,570	2,908	2,336
Income taxes receivable	**-**	-	-	3,118	-
Agreements receivable	**140,625**	127,178	85,335	43,508	46,904
Land inventory	**384,974**	255,570	201,398	163,694	141,108
Investment properties	**168,813**	112,430	86,685	54,930	50,396
Capital assets	**478**	331	327	291	321
Deferred cost and other assets	**15,043**	10,158	8,777	7,748	5,661
	726,765	522,927	396,113	282,348	251,806
LIABILITIES AND SHAREHOLDERS' EQUITY					
Bank operating loan	**85,629**	29,599	16,026	10,167	1,642
Accounts payable and accrued liabilities	**28,642**	26,563	21,125	12,107	9,347
Income taxes payable	**3,689**	3,997	5,973	-	492
Provision for land development	**51,103**	39,805	29,026	18,962	15,176
Debt on land inventory	**106,565**	72,440	50,478	40,311	35,885
Debt on investment properties	**135,413**	89,869	69,432	35,956	37,335
Future income taxes	**29,240**	24,744	17,725	11,304	11,192
Share capital	**11,317**	10,789	10,023	8,024	7,523
Retained earnings	**275,167**	225,121	176,305	145,517	133,214
	726,765	522,927	396,113	282,348	251,806

STATEMENT OF EARNINGS ($000s)	2007	2006	2005	2004	2003
Revenue	**207,024**	203,402	161,500	88,339	80,035
Cost of sales	**(98,573)**	(115,886)	(86,343)	(52,107)	(46,554)
	108,451	87,516	75,157	36,232	33,481
Income interest	**6,772**	4,439	1,887	1,586	2,389
Interest expense	**(8,968)**	(6,427)	(3,896)	(2,463)	(2,363)
General and administrative expense	**(13,814)**	(11,786)	(9,442)	(5,546)	(6,293)
Depreciation expense	**(3,218)**	(2,240)	(1,682)	(1,486)	(1,091)
	89,223	71,502	62,024	28,323	25,923
Gain/(loss) on sale of investment properties	**121**	11,118	(63)	-	1,578
Earnings before income tax expense	**89,344**	82,620	61,961	28,323	27,501
Income tax expense	**(25,674)**	(24,849)	(20,185)	(8,886)	(9,095)
Net earnings for the year	**63,670**	57,771	41,776	19,437	18,406

STATISTICAL ($)		2007	2006	2005	2004	2003
Earnings per share	- basic	**2.05**	1.87	1.38	0.63	0.60
Earnings per share	- diluted	**2.00**	1.83	1.35	0.62	0.59
Number of shares	- year end (000's)	**31,190**	31,056	30,756	30,545	30,828
Shareholders equity	- book value per share	**9.19**	7.60	6.06	5.03	4.57
	- total (000's)	**286,484**	235,910	186,328	153,541	140,737
Dividends	- per share	**0.40**	0.30	0.25	0.12	0.11
Share price range		**16.51-30.47**	11.50-22.25	5.10-12.00	4.45-5.50	3.70-4.80

Melcor 2007 Performance Measures (Selected)

	2003	% change	2004	% change	2005	% change	2006	% change	2007
ASSETS ($000s)	251,806		282,348		396,113		522,927		**726,765**
Average annual increase = 47.2%		12.1%		40.3%		32.0%		39.0%	
SHAREHOLDERS' EQUITY ($000s)	140,737		153,541		186,328		235,910		**286,484**
Average annual increase = 25.9%		9.1%		21.4%		26.6%		21.4%	
REVENUE ($000s)	80,035		88,339		161,500		203,402		**207,024**
Average annual increase = 39.7%		10.4%		82.8%		25.9%		1.8%	
GROSS MARGIN	41.8%		41.0%		46.5%		43.0%		**52.4%**
Five year average = 46.0%									
ADMIN. EXPENSES/REVENUE	8.1%		6.3%		5.8%		5.8%		**6.7%**
Five year average = 6.4%		-22.2%		-7.9%		0.0%		15.5%	
EARNINGS BEFORE TAXES ($000s)	27,501		28,323		61,961		82,620		**89,344**
Average annual increase = 56.2%		3.0%		118.8%		33.3%		8.1%	
BASIC EARNINGS PER SHARE ($)	0.60		0.63		1.38		1.87		**2.05**
Average annual increase = 60.4%		5.0%		119.0%		35.5%		9.6%	
AVERAGE SHARE PRICE ($)	4.02		4.85		8.50		17.90		**24.21**
Average annual increase = 125.6%		20.6%		75.3%		110.6%		35.3%	
DIVIDEND ($)	0.11		0.12		0.25		0.30		**0.40**
Average annual increase = 65.9%		9.1%		108.3%		20.0%		33.3%	
DIVIDEND YIELD	2.7%		2.5%		2.9%		1.7%		**1.7%**
Five year average = 2.0%									
BOOK VALUE PER SHARE ($)	4.57		5.03		6.06		7.60		**9.19**
Average annual increase = 25.3%		10.1%		20.5%		25.4%		20.9%	
AVG. BOOK VALUE PER SHARE ($)	4.36		4.80		5.55		6.83		**8.40**
Average annual increase = 23.1%		10.1%		15.5%		23.2%		22.9%	
AVG. MARKET/AVG. BOOK	0.92		1.01		1.53		2.62		**2.88**
Five year average = 1.99									
PRICE EARNINGS RATIO	6.7		7.7		6.2		9.6		**11.8**
Five year average = 9.1									
RETURN ON EQUITY	13.8%		13.2%		24.6%		27.4%		**24.4%**
Five year average = 21.8%									
RETURN ON ASSETS	7.6%		7.3%		12.3%		12.6%		**10.2%**
Five year average = 10.4%									
DEBT/EQUITY RATIO	0.79		0.84		1.13		1.22		**1.54**
Five year average = 1.17									
ASSET TURNOVER	33.1%		33.1%		47.6%		44.3%		**33.1%**
Five year average = 38.3%									

Calculations:

Price Earnings Ratio is the average share price for the year divided by the basic earnings per share for that year.

Return on Equity is the net earnings after income tax expense for the year divided by the average equity during the year.

Return on Assets is the net earnings after income tax expense for the year divided by the average assets during the year.

Corporate Information

Corporate Office

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931
info@melcor.ca
www.melcor.ca

Directors

William D. Grace (1) (2)
Corporate Director

W. Garry Holmes (1)
Corporate Director

Allan E. Scott (2)
Corporate Director

Andrew J. Melton
Partner
Avison Young Commercial Real Estate

Timothy C. Melton
Executive Chairman
Melcor Developments Ltd.

Catherine M. Roozen (1)
Director and Corporate Secretary
Cathton Holdings Ltd.

Ross A. Grieve (2)
President & CEO
PCL Construction Group Inc.

Ralph B. Young
President & Chief
Executive Officer
Melcor Developments Ltd.

Notice of Annual Meeting

The annual meeting of Shareholders will be held at The Fairmont Hotel Macdonald, Wedgwood Room, 10065-100 Street, Edmonton, Alberta, Canada on the 11th day of April, 2008 at 11:00 am MDT.

(1) Audit Committee
(2) Governance Committee

Other Information

Share Transfer Agent: CIBC Mellon Trust Company, Calgary & Toronto
Stock Exchange Listing: The Toronto Stock Exchange (Stock symbol: MRD)
Auditors: PricewaterhouseCoopers LLP, Chartered Accountants, Edmonton
Corporate Lawyers: Field LLP, Calgary

Named Executive Officers

All being Management Committee Members

Timothy C. Melton
Executive Chairman

Ralph B. Young
President & Chief Executive Officer

Michael D. Shabada
Vice-President, Finance and
Chief Financial Officer

W. Peter Daly
Vice-President,
Community Development Division

Brett A. Halford
Vice-President, Administration

Brian Baker
Vice-President,
Property Development Division

Darin Rayburn
Vice-President
Investment Property Division

Property Development

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931

Brian Baker
Vice-President,
Property Development Division

Investment Property

Commercial Property

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931

Darin Rayburn
Vice-President,
Investment Property Division

Watergrove Manufactured Home Community

400, 99 Arbour Lake Road NW
Calgary, Alberta T3G 4E4
(403) 547-0200

Doug Alton
Manager

Finance and Administration

Karen Albarda
Operations Controller

Jon Goor
Corporate Controller

Community Development

Edmonton Region

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931

Jordan Davis
Regional Manager,
Edmonton North

Chris Nicholas
Regional Manager,
Edmonton South

Calgary Region

204, 400 Crowfoot Crescent N.W.
Calgary, Alberta T3G 5H6
(403) 283-3556

Dennis Inglis
Regional Manager

Red Deer Region

502 Parkland Square
Red Deer, Alberta T4N 6M4
(403) 343-0817

Guy Pelletier
Vice-President and Regional Manager

Lethbridge Region

1425-33 Street N., 2nd Floor
Lethbridge, Alberta T1H 5H2
(403) 328-0475

Neil Johnson
Vice-President and Regional Manager

Kelowna Region

207, 1664 Richter Street
Kelowna, BC V1Y 8N3
(250) 717-8390

Randy Sieben
Vice-President and Regional Manager

Golf Courses

The Links At Spruce Grove

P.O. Box 4268
Spruce Grove, Alberta T7K 3B4
(780) 962-4653

Pierre Beauchemin
Pro/Manager

Glen Andersen
Superintendent

Lewis Estates Golf Course

8700 - 207 Street
Edmonton, Alberta T5T 6A4
(780) 489-1369

Jerry Linquist
Pro/Manager

Rob Sklaruk
Superintendent

Black Mountain Golf Course

Kelowna, British Columbia

Barry Skabar
Superintendent

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DEVELOPMENTS LTD.

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